SETTING THE TONE FROM THE TOP

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How directors use conversation to shape culture

Melinda Muth
Bob Selden

AUSTRALIAN INSTITUTE
of COMPANY DIRECTORS

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Foreword

At a time when directors face increasing expectations in relation to their responsibility for setting organisational culture and building trust, the importance of using words–which align intent and impact–is critically important.

This is the main premise of Melinda Muth and Bob Selden's *Setting the Tone from the Top*, and its message could not be better timed.

The quality of the working relationships and conversation between the chair and the CEO, and among directors and the CEO in the boardroom, at committee meetings and in informal settings, is one of the strongest levers the board has to influence culture.

Drawing on rigorous research and applied case studies, the authors challenge boards to consider how the 'rules of the game' are transferred not just by having good governance principles in place, but by how the board and senior management describe what is meant by these in their day-to-day conversations.

Melinda Muth and Bob Selden have written a compelling must-read for any leader looking to increase the effectiveness of their words and language, and the impact they have on organisational culture. I recommend this book to all boards and executive teams, as a powerful reflection on the evergreen question: Are we setting the right tone?

Elizabeth Proust AO FAICD
Chairman
Australian Institute of Company Directors

Acknowledgements

From Bob Selden

I was fortunate to undertake my formal psychology studies in my early 30s by which time I'd had both some life and work experiences and reached a certain level of maturity. One of the early writers that fascinated me was D.C. McClelland who is famous for his work on the need for achievement. However, it was his research into the impact of words on developing this drive for achievement that really got my attention. For example, he posited that a society's future may be predicated on the words the society currently uses in day-to-day conversations, books (particularly children's books), stories, films, plays, cartoons and the popular press.

Around that time, I started working for my long-term mentor, Dennis Pratt, one of Australia's foremost organisational development consultants and author of *Aspiring to Greatness: Above and Beyond Total Quality Management*. Dennis was instrumental in fostering my interest in all things to do with motivation and has been an inspiration in my consulting work over many years. Dennis and I used to run training programs for managers, teaching them how to use McClelland's theory to develop a greater need for achievement. The key underpinning of this training was training people how to write achievement-oriented stories (rather than negative ones). And although I didn't realise it at the time, this was a good example of priming and in many cases, reframing.

I'd like to thank my co-author Melinda, who introduced me to The Australian Institute of Company Directors, and who has inspired me during our writing of *Setting the Tone from the Top* with her vast experience, boardroom stories (some that we couldn't print!) and quotes around the topic of boardroom conversations. I've tremendously enjoyed our collaboration during this process.

Finally I'd like to thank my number one fan, my wife Anita, whose constant encouragement makes me want to succeed at everything I do.

From Melinda Muth

I've had a lot of variety in my career and the thread that ties it all together is a deep interest in people, teams and ways to manage group dynamics to make better decisions.

One of my career moves was to train as a psychologist. While I was studying, a wise friend called to my attention that rather than doing a Bachelor's degree in psychology, I should consider a PhD in organisational behaviour in order to build on my interest in that subject during my MBA years at Harvard. I then ended up making an application to the PhD program at AGSM/UNSW thinking I would research effective group leadership at the executive level and ended up doing research on boards and directors. This led to a dissertation supervised by Professor Lex Donaldson on the topic of board structure and its impact on company performance.

I joined the organisational behaviour faculty at AGSM which led to many opportunities to work with executive groups. Here, I observed firsthand the impact of positive behaviour, and not so positive behaviour on group performance. During my time at AGSM, I was very fortunate to meet John Colvin who was working as an Adjunct Professor. He later became the CEO of AICD and invited me to join the AICD facilitation team. I will be forever grateful to John for that invitation and for his leadership. Working with AICD has allowed me to utilise all the skills I've developed over the years and to build on the work I did during my PhD years.

In addition to meeting John, during my time with the executive education team at AGSM, I met my co-author, Bob Selden. We have kept in touch over the years and after the success of his first book, *What To Do When You Become The Boss*, I was delighted to hear about the publication of his second book, *Don't: How using the right words will change your life*. Bob kindly gave me an advance copy and when I read it, I instantly thought about how the content could be applied in the boardroom. In my work with directors, one of the questions I am most often asked is how to deal with difficult group dynamics in the boardroom. I thought the practical advice in Bob's second book could be tailored for directors and I introduced Bob to Javier Dopico at AICD. The result is *Setting the Tone from Top*.

I want to thank my co-author Bob for being such a collaborative, and of course, positive colleague. He does indeed 'practise what he preaches' and I have experienced firsthand how well his recommendations work.

Finally, I would like to thank the most positive person I know, my husband, Ian Hill. His support and optimism about what I can achieve keeps me going.

From Bob and Melinda

We are grateful to those writers who permitted us to quote from their work, such as Spiro Zavos, Sports Journalist from the *Sydney Morning Herald*, who piqued our interest in the notion of locus of control; Professor Marianne Schmid Mast from the Université de Lausanne whose study of the impact of words on young male drivers fascinated us; M K Chen, Associate Professor Economics, at UCLA Anderson School of Management whose ongoing work on futured languages will, we believe, have major implications for our positivity; Penny Tompkins and James Lawley who first introduced us to the importance of metaphors and the use of 'clean language'; Bud Hennekes, blog owner of "A Boundless World" http://www.aboundlessworld.com/about/ for his great feedback story; Louise Sedgwick from Campbell Page and her colleagues who jumped at the opportunity to tell their positivity story, and many others too numerous to name but who are catalogued in the footnotes throughout the book.

Finally, we'd like to thank all the people at the Australian Institute of Company Directors, and particularly our publisher, Javier Dopico, who had the foresight (perhaps we should say, courage) to instigate and support *Setting the Tone from the Top*.

Introduction

> ***War over words erupts as World Bank star economist loses management duties***
>
> *The World Bank's Chief Economist, Paul Romer has been stripped of his management duties after researchers rebelled against his efforts to make them communicate more clearly, including curbs on the written use of the word "and".*
>
> *Romer will remain chief economist, providing management with "timely thought leadership on trends directly affecting our client countries, including the 'future of work'," World Bank president Jim Yong Kim said in the note to staff dated May 9.*
>
> *Romer said he met resistance from staff when he tried to refine the way they communicate. "I was in the position of being the bearer of bad news," he said in an interview.*
>
> *"It's possible that I was focusing too much on the precision of the communications and not enough on the feelings my messages would invoke" Romer, 61, explained.*[1]

Imagine someone at such a senior level being stripped of his or her seniority, or even losing their job, over the words they have used. Unlikely? Yet it happened in this case. Read again that last statement of Romer's: "It's possible that I was focusing too much on the precision of the communications and not enough on the feelings my messages would invoke."

Every statement we make, either verbal or written, has both an intent—what we want to achieve—and an impact—how it is received by the recipient. Sometimes intent and impact are in sync, sometimes not. Human beings transfer information (and feelings) from one person to another by putting thoughts into words. This includes thoughts about everything from the values we hold dear, to our thoughts about strategies, goals, and even views on risk. Those in positions of authority with a clear understanding of the impact of their words and their thoughts on the behaviour of those they wish to lead, are in a better position to ensure their impact is what they mean it to be.

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[1] A Mayeda, 2017, "War over words erupts as World Bank start economist loses management duties", *Sydney Morning Herald*, 26 May 2017, https://www.smh.com.au/business/the-economy/war-over-words-erupts-as-world-bank-star-economist-loses-management-duties-20170526-gwdj97.html, (accessed 25 June 2018).

However, our intent doesn't always result in the impact we intend. For example, in Paul Romer's case he was reported to have been frustrated with what he saw as the dense, convoluted style of many of the department's reports. His intent was to have researchers write more clearly, using the active voice to be more direct. In particular, he had a distaste for the conjunction 'and'. In doing so, his emails became short and terse. The impact? It was quite different from his intent. Staff reportedly said they were upset by his tone and as a result, felt they were not being listened to. "They felt under-appreciated," Romer said. "It reflected a kind of siege mentality that I can't quite understand."[2] Notice here, that Romer's intention of improving the quality of reports (his logic and reasoning about data and information) resulted in an impact on the recipients' feelings. Often when there is a mismatch between intent and impact, what seems like a logical, reasoned communique to the sender, produces an impactful and unexpected arousal of the negative feelings in the recipient.

Therefore, for boards facing the task of driving cultural change and building organisational trust, the importance of aligning intent and impact is critically important. For it's how people 'feel' about the message that will gain their commitment, not necessarily the 'reason and logic' behind the message, no matter how sound the reasons may appear to the board.

Our intent in *Setting the Tone from the Top* is to demonstrate how something so simple as words, can have so much impact. If something someone does or says in a particular way, sets the tone for an event or activity, it establishes the way that event or activity will continue, and this is especially the case for the mood of the people involved. Words are the building blocks of effective communication, both verbal and written. Effective communication impacts the way people interact with each other and whether those interactions are positive and open, or negative and possibly harmful. In short, words are the most basic building blocks for setting the tone in terms of the 'way we do things around here'. Words shape behaviours, which impact decisions and actions, and in turn, form the culture of an organisation.

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[2] Ibid.

It all begins with words

The aim of this book is to examine what the words ‘setting the tone’ really mean, and indeed how words are part of how ‘tone is set’ in actual practice, and why this is so important for company directors. Company directors are in the highest position of authority in organisations of every kind—from family businesses, to non-profit organisations and major listed companies. Directors’ words have power. Director conversations in the boardroom and with management shape the behaviour and decisions, which influence not just shareholders, but employees, suppliers, creditors and the community.

As AICD CEO Angus Armour recently commented, “We are in a low trust moment in society and directors are looking at their own organisations and asking questions about conduct and behaviour.”[3] The subject of company culture has become an important agenda item for many boards. For example, ASIC has indicated it plans to incorporate company culture into its risk review process. And culture is also gaining traction with activist organisations such as the Australian Council of Superannuation Investors (ACSI). The traditional view that “if directors and the company acted in the interests of shareholders, that would be enough”, has shifted. The evolution of attitudes in the community about the conduct of companies and their boards has heightened expectations of the role directors play in shaping culture.

Setting the Tone from the Top will provide board members with tools and processes for conversing effectively with each other, with executives and stakeholders, to ensure all views on key topics such as conduct, risk and strategy, are canvassed, heard and evaluated. This attests that the tone being set, i.e. the culture being transmitted and maintained, meets the expectations of all stakeholders.

Using encouraging and affirmative language, having effective conversations, and developing beneficial relationships, both within the boardroom (where this approach starts) and externally with other stakeholders, are often described by social scientists and communication experts as ‘process management’ skills. These skills distil into three elements—words, language, and conversations—that are essential for developing the important relationships that enable directors to set the tone from the top. **Figure 1: The three elements of effective director relationships** depicts how 'words' are the foundation stones that construct 'effective conversations', which in turn build 'effective relationships' that ultimately set the tone from the top.

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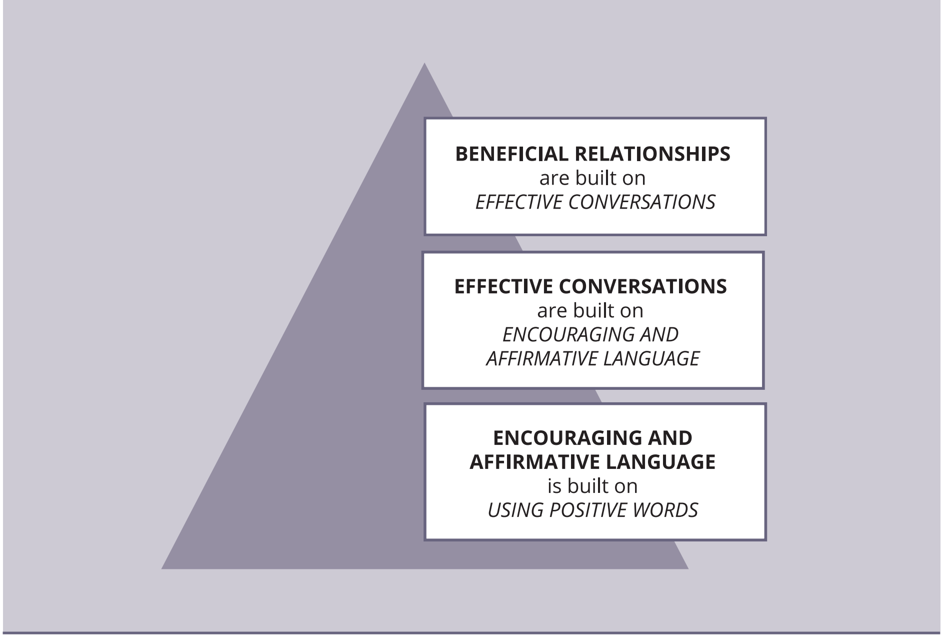
[3] P Durkin, 2018, “ASIC’s culture crackdown puts boards on high alert”, *Australian Financial Review*, January 2018, http://www.afr.com/leadership/asics-culture-crackdown-puts-boards-on-high-alert-20171218-h06nnz, (accessed 25 June 2018).

Figure 1: The three elements of effective director relationships


BENEFICIAL RELATIONSHIPS
are built on
EFFECTIVE CONVERSATIONS
EFFECTIVE CONVERSATIONS
are built on
ENCOURAGING AND AFFIRMATIVE LANGUAGE
ENCOURAGING AND AFFIRMATIVE LANGUAGE
is built on
USING POSITIVE WORDS

In various conversations as a director, the topics being discussed, for example, strategy, governance and culture, are the 'content' of the conversations. The way these topics are discussed—the communication skills used, such as questioning, listening, using positive words, reframing, triangulating, managing the agenda and so on—are the process management skills directors need to apply to be at their best at the board table.

It's our experience that few directors take the time to manage and evaluate their process management skills. Accordingly, each of the Parts in *Setting the Tone from The Top* covers key process management fundamentals.

Part 1 covers the setting and shaping of culture—how is it originally formed? What impact do directors have on the culture of the organisation? What are the 'levers' the board can use to influence the CEO and senior management in developing an appropriate culture? And particularly, what part does language, both verbal and written, play in setting the tone from the top?

This leads us to discussing 'conversation' in **Part 2**—the key process through which directors harness the knowledge of the board and influence senior management. Whilst **Part 1** is principally about the 'why?' (why directors should be concerned with culture), in **Part 2** we commence the 'how?'—how directors play their part in setting the tone at the top, by understanding the impact their words and language have on tone through their conversations in the boardroom and with key stakeholders.

In **Part 3**, we introduce specific strategies, techniques and tactics for directors as leaders. These techniques and tactics can be used in day-to-day conversations that model the behaviour directors expect others to follow. We also examine how choosing particular words in conversation can cause either a positive or negative impact on others. **Part 3** concludes with a chapter on how using certain language in conversation over periods of time, impacts how the brain functions—either positively or negatively.

The book concludes with **Part 4** showing how directors can apply the conversational processes we cover in **Parts 2** and **3**, to specific, challenging conversations such as 'giving critical feedback to the CEO', or 'handling a difficult media conversation', and even 'managing difficult conversations with fellow directors in the boardroom'. We suggest reading **Parts 1** to **3** in their entirety as each builds on the other. **Part 4** contains stand-alone chapters and may be read as and when needed—however, we do encourage directors to read at least the Introduction to **Part 4**, as it covers the six-step process that a conversation follows in greater detail. It also provides specific examples that will assist in assimilating this important process management strategy.

In addition to the footnotes throughout the book, highlighting the research that underpins these key process management fundamentals, we've included a short list of further reading on a range of topics like the brain, words and conversation, for those who are interested in developing their knowledge in these areas.

We trust you'll enjoy our conversation about words and language and how they impact organisational culture.

Part 1

Setting the tone at the top

1.1 How boards impact culture

We begin with a discussion of the word 'culture' and what it means. One definition describes culture as "the social behavior and norms found in human societies".[4] The term can be applied to countries, cities, industries, organisations and even functions within organisations (e.g. marketing, manufacturing, finance). The propensity for humans to form groups whose members conform to certain rituals, procedures and customs is universal. It's all about conforming and aligning behaviour with the values and objectives of the group, and leadership behaviour is a critical element. In this book, our focus is on the ways directors, as leaders, influence and shape behaviours, policies, and performance goals in organisations. That is, how do directors as leaders of an organisation, shape culture?

What levers are directors able to use?

The following diagram, **Figure 2: Elements of culture creation and maintenance**, shows the 'factors' that relate to how culture is originally created and subsequently, shaped. It also depicts the key levers which impact culture over which directors have influence. We'll discuss these in detail and demonstrate the part conversation plays in each, as we progress through this chapter and **chapter 1.2 How boards shape culture**.

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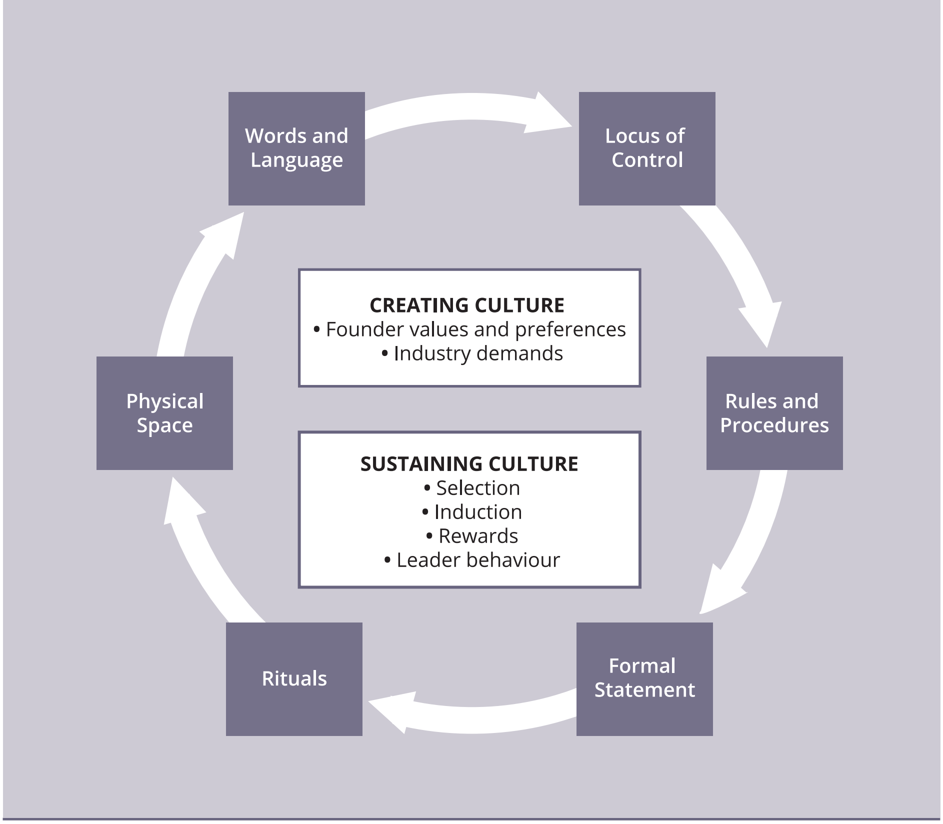
[4] "Culture", *Wikipedia*, 2018, 23 May, https://en.wikipedia.org/wiki/Culture, (accessed 25 June 2018).

Figure 2: Elements of culture creation and maintenance


Words and Language
Locus of Control
Rules and Procedures
Formal Statement
Rituals
Physical Space
CREATING CULTURE
• Founder values and preferences
• Industry demands
SUSTAINING CULTURE
• Selection
• Induction
• Rewards
• Leader behaviour

How are cultures created?

Where do cultures come from in the first place? An understanding of this question is essential for those wanting to influence, change or sustain culture. What happens inside an organisation is influenced by both internal and external challenges and how the people in the organisation decide to deal with those challenges. When their decisions result in success (i.e. rewards earned, recognition received, status achieved, threats overcome), the values and behaviours perceived as central to that success are retained.

How is a company's culture created? The founders' values and preferences, and the demands of the industry, are critical elements. At this stage, there may be no board of directors. If and when a board is formed, the directors inherit the culture shaped by the founder together with the demands of the industry.[5]

For example, 3M which was founded in 1902 and was remarkably unsuccessful in its first three years (due to mining for the wrong product), has today become a global phenomenon with over 90,000 employees across 129 countries and producing 55,000 products. What is their recipe for success? A culture that fosters innovation—their website exclaims:

> *3M is a global innovation company that never stops inventing. Over the years, our innovations have improved daily life for hundreds of millions of people all over the world. We have made driving at night easier, made buildings safer, and made consumer electronics lighter, less energy-intensive and less harmful to the environment. We even helped put a man on the moon. Every day at 3M, one idea always leads to the next, igniting momentum to make progress possible around the world.*[6]

In the case of 3M, initial industry demands for a different product and the founders' desire to be successful through continuous innovation, have shaped the way the company and the people in it behave and perform today. Indeed, it has a culture that could be summed up as 'promoting innovation'.

The founder

An organisation's culture in its early years is inevitably tied to the values and personality of its founder. For example, Ray Williams shaped the culture of HIH and Steve Jobs shaped the culture of Apple. When a person starts a business, or founds a non-profit organisation, it is their vision, their rules and the people they hire that determine the behaviours and standards of performance that are expected and acceptable. For instance, Scott Farquhar and Mike Cannon-Brookes of Atlassian individually hired everyone in the early days of their company. When they started delegating the hiring, they ran into problems—in their words, "we did it without specifically knowing what we should look for and what types of people fit with Atlassian".[7] Following this realisation, they ran a process with their management team and long-standing staff to identify the values that matter at Atlassian. They subsequently aligned their hiring practices with those values. Farquhar and Cannon-Brookes attribute much of their success to those values and the culture that has been created because of those values. Their story illustrates how founder values become part of the organisational culture to the extent they help the company become successful.

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[5] M Carpenter, T Bauer and B Erdogan, 2009, *Principles of Management*, v. 1.0, open textbook, pp 359–61, https://2012books.lardbucket.org/pdfs/management-principles-v1.0.pdf, (accessed 25 June 2018).

[6] 3M, *Who we are*, 3M Company Information, http://solutions.3m.com/wps/portal/3M/en_US/3M-Company/Information/AboutUs/WhoWeAre/, (accessed 26 June 2018).

Industry demands

The influence of founders is powerful, but industry characteristics also play a significant role. For instance, banking and insurance companies are stable and rule-oriented; technology companies tend to be more visibly innovative; and non-profit organisations more people focused. If an industry is highly regulated, such as banking or healthcare, then the presence of more regulation and compliance requirements can be expected. It is important therefore to recognise the influence of industry on culture formation—it may not be possible to imitate the culture of a company in a different industry even though it may appear to be admirable to outsiders who have high expectations for the capacity of the CEO and the company directors to change culture.

A case in point is the failure of the major retailer Woolworths, when it launched its Masters hardware chain. On the surface, moving from one industry sector to another might seem an appropriate strategic move for a major, successful retailer (particularly where there already was one very successful organisation, Wesfarmers' Bunnings, in that sector). However, as Masters CEO Melinda Smith said when addressing analysts in the wake of Woolworths being forced to blow out its projected losses for Masters in its first five years, "The company failed to grasp the seasonality of hardware." She acknowledged that she didn't know a lot about the structure of the business when it began: "We didn't know a lot about this business when we set the budget for financial 2013", Smith said.[8]

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[7] B Rogers, 2017, "How culture drives Atlassian's ambitions to be the collaboration platform for all companies", *Forbes*, 20 January, p 2, https://www.forbes.com/sites/brucerogers/2017/01/20/how-culture-drives-atlassians-ambitions-to-be-the-collaboration-platform-for-all-companies/#1c63a9316f41, (accessed 25 June 2018).

[8] E Greenblat, 2013, "Woolworths 'failed to understand' hardware", *Sydney Morning Herald*, 18 July, https://www.smh.com.au/business/woolworths-failed-to-understand-hardware-20130718-2q5if.html, (accessed 25 June 2018).

The Masters case demonstrates some of the industry demands that may differ, even within sectors. And in the case of Masters, there's an even greater pressure on success—culture. As pointed out in an article[9] on the topic comparing Masters to the success of Bunnings:

> *Bunnings has successfully developed a strong organisational culture where workers feel empowered.*
>
> *Bunnings head of human resources Willem Pruys championed a workplace where challenging the boss was expected and feedback and ideas welcomed.*
>
> *'The culture has produced a number of outcomes,' Mr Lake said.*
>
> *'Team members by and large love working at Bunnings. The staff churn is incredibly low.*
>
> *'Customers who know nothing of the culture notice eye contact, smiles, willingness and enthusiasm not often experienced in Australian retail.*
>
> *'It also results in rapid feedback of market information to those making far ranging decisions. For a huge retailer, Bunnings is amazingly nimble.*
>
> *'Woolworths is a very top-down company.*
>
> *Masters has a written policy of insisting staff park their cars tail-in to the kerb, which is symptomatic of their rigid workplace culture.'*

This relationship between culture and industry demands is well summarised in an insightful open letter to Woolworths' CEO Grant O'Brien, by financial analyst Sam Ferraro who wrote at the time: "Perhaps your greatest legacy to the company you have worked at since a teenager will be to have the courage to admit to past failures and exit home improvement, while re-assessing the synergies that exist between general merchandise and supermarkets."[10]

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[9] E Stewart, 2016, "Masters: Five reasons Woolworths is pulling the plug on struggling hardware chain", *ABC News*, January 16, http://www.abc.net.au/news/2015-05-06/five-reasons-woolworths-is-being-hammered-on-hardware/6450364, (accessed 26 June 2018).

[10] S Ferraro, 2015, *An open letter to Woolworths CEO, Grant O'Brien*, Evidente Research Partners, 5 May, http://www.evidente.com.au/blog/2015/5/4/an-open-letter-to-woolworths-ceo, (accessed 26 June 2018).

And it is likely to be more than an assessment of the synergies between general merchandise and supermarkets that is required to understand what went wrong. It can be argued that culture played a role in the failure of Masters. Woolworths would have executed its strategy with the participation of its key venture partner, Lowes, a successful player in the US retail hardware market. The beliefs of a culture shaped by success in one country do not easily translate across national borders. Bunnings for example, is now finding its culture being tested as it struggles to translate its success in Australia to the UK market with its acquisition of Homebase. One of the first decisions taken only a week after Bunnings took control of Homebase was to cull the entire senior management team. This decision was described as "not really very sensible" because it would alienate Homebase's 15,000 staff. The wisdom in sacking the entire executive board before gaining a full understanding of the UK home improvement market appears questionable. According to retail expert, Neil Saunders: "On the surface retail in a foreign country can seem obvious and easy. In reality it never is. There are nuances and hidden traps".[11]

How are cultures sustained?

As a company grows and matures, values and behaviours are refined and reinforced. Early values, those shaped by the founder and reinforced by their association with success, influence the development of future values. Existing organisational culture influences hiring decisions. Indeed a talented person can be rejected on the basis of being 'not a good cultural fit'. Once new people join an organisation, they quickly observe what is acceptable and what is not acceptable and they respond to the behaviour that is rewarded. (Note this can also apply to a new director joining an existing board.) Cultures are maintained by reinforcing behaviours through the selection of who is in the company. This includes group membership; how the rules are transmitted to new members; how they are rewarded (or punished); and the behaviour of leaders.

It's widely known, for instance, that there's one thing that will make or break you at Apple; cultural fit. In 2013, Apple CEO Tim Cook fired John Browett just one month after the European electronics executive had been appointed Apple's head of retail. Browett, according to Apple executives, didn't fit in at Apple, and frequently upset store employees by changing their schedules. "After being fired from Apple, Browett said in a speech that he was shocked that he was let go due to not fitting in with company culture, even though he was qualified for the position."[12]

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[11] S Mitchell, 2016, "'Genius' or 'arrogant': Bunnings takes chainsaw to Homebase management", *Sydney Morning Herald*, 7 March, https://www.smh.com.au/business/companies/genius-or-arrogant-bunnings-takes-chainsaw-to-homebase-management-20160307-gnc94t.html, (accessed 25 June 2018).

Attraction and selection—who is on the team?

People are attracted to organisations for a variety of reasons and the belief that they will fit in is an important one. Research shows that employees with different personalities find different cultures attractive. For example, out of the 'Big Five' personality traits,[13] people who demonstrate high rigidity and anxiety are less likely to be attracted to innovative cultures, whereas those with high openness to experience are more likely to be attracted to innovative cultures.[14]

'Values similarity' is only one reason a person may be attracted to a particular company. High salaries, bonuses and benefits are other powerful attractors. And the door swings both ways—companies are also looking for people who will fit in and often they hire for fit in attitude rather than specific skills which can be taught on the job. Companies use different techniques to weed out candidates who do not fit with corporate values. For example, Google uses a process of multiple interviews with future peers to learn what potential co-workers think of a candidate in order to make an assessment of fit. And similarly, returning to the Atlassian story:

> *When we hire someone, it's not enough to have a great resume and experience. You have to value the same things we do: transparency, customer service, work-life balance, initiative, and fun.*
>
> *In other words, if we passed each other on the sidewalk some sunny Sunday afternoon, we'd actually want to stop and talk with you. Why is this so important? Because if you like the people you work with and value the same things, you'll spend more time with them and collaborate more.*

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[12] J Linshi, 2015, "This surprising trait can get you fired at Apple", *Time*, 26 March, http://time.com/3760114/apple-tim-cook-fired/, (accessed 29 March 2018).

[13] R McCrae and O John, 1992, "An introduction to the five-factor model and its applications", *Journal of Personality*, Vol 60, No 2, pp 175–215.

[14] T Judge and D Cable, 1997, "Applicant personality, organizational culture, and organization attraction", *Personnel Psychology*, Vol 50, No 2, pp 359–94.

> *This* doesn't *mean you should just hire a bunch of people that look and sound and think like you. That leads to a homogeneous workforce, which can actually stifle innovation. Hiring for "values fit" leaves plenty of room for hiring people of diverse backgrounds, interests, ages, etc. while ensuring that what you have in common are the things that really matter.* [15]

The words 'values fit' along with 'diversity', 'innovation' and 'experience' clearly illustrate what matters at Atlassian. From sporting teams to orchestras, management teams to boards, it matters who is selected to be in the group. If there is a lack of clarity or consistency about who is accepted into a company, it can be argued that maintaining the culture by insisting on adherence to the values is even more important for shaping behaviour when new members join.

While management is responsible for the hiring of staff, it is the board of directors that is responsible for what can be argued as the most important selection decision in any organisation, the hiring of the CEO, the person whose behaviour and words will be in the spotlight as he or she carries out the directives of the board.

Induction—what are the 'rules of the game'?

Another way in which an organisation's values and patterns of behaviour are transmitted to employees is the induction process. Formal induction programs are helpful in teaching employees about the goals and history of a company, as well as communicating the power structure and smoothing the way for integration into a team. Face-to-face orientation has been shown to demonstrate these benefits more fully than computer-based programs,[16] again demonstrating the power of words delivered in face-to-face conversation.

Management is responsible for developing and implementing appropriate induction processes for staff. Whether boards are aware of the quality and impact of these processes is a topic for conjecture. What boards can control however, is the induction process for new board members and the CEO. The quality of the working relationships and conversation between the chair and CEO, among directors and the CEO in the boardroom, at committee meetings and informal settings, is the strongest lever the board has to influence culture. Setting the groundwork for a clear understanding of how those relationships can work best from the start, is an important way to set the tone at the top.

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[15] D Garfield, 2015, "Inside Atlassian: Building a culture of innovation", 23 November, https://www.atlassian.com/blog/inside-atlassian/how-atlassian-builds-innovation-culture, (accessed 29 March 2018).

[16] M Wesson and C Gogus, 2005, "Shaking hands with a computer: An examination of two methods of organizational newcomer orientation", *Journal of Applied Psychology*, Vol 90, No 5, Sep, pp 1018–26.

Examining the language used to describe two recent CEO appointments gives an insight into the tone being set for important relationships. For example, the Commonwealth Bank (CBA) has been roundly criticised for a number of failures attributed to its culture including the appointment of internal candidate, Matt Comyn, to replace Ian Narev as CEO. The Chair of CBA, Catherine Livingstone, argued: "The advantage of an internal candidate, over and above all of the other attributes that Matt has, is that we have no loss of momentum in those programs to address those cultural areas where we feel that we need to improve."[17] While the decision to appoint an internal candidate has attracted ire, Livingstone's justification nonetheless constitutes a positive statement about culture indicating that good relationships exist and will continue.

Compare Livingstone's words with those of the board of Vanguard who also selected an internal candidate as the new CEO. The appointment of Mortimer J 'Tim' Buckley is described in words with a different tone: "…the company has chosen its most hard-driving combative CEO yet…Buckley has already shown a willingness to bend Vanguard's culture in pursuit of more assets."[18] What culture is the Vanguard Board portraying by adopting such a tone? What are the particular words that 'jump out' from this statement that indicate the culture the board is endeavouring to set? What is the likely outcome for future relationships between the board and the new CEO?

Leadership behaviour—who sets the tone?

Leaders are instrumental in creating, maintaining and shaping organisational culture. There is a direct correlation between leadership style and culture. When leaders provide motivation for employees through vision, clarity and inspiration, culture tends to be more supportive and open. When leaders endeavour to motivate employees by making rewards contingent on performance, the culture tends to be more performance oriented and competitive.[19]

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[17] C Yeates, 2018, "Commonwealth Bank promotes Matt Comyn to replace Ian Narev as CEO", *Sydney Morning Herald*, 29 January, https://www.smh.com.au/business/banking-and-finance/commonwealth-bank-promotes-matt-comyn-to-replace-ian-narev-as-ceo-20180129-h0ppjk.html, (accessed 29 March 2018).

[18] S Gandel, 2018, "Vanguard's CEO's big challenge is dealing with success", *Australian Financial Review*, 7 January, http://www.afr.com/markets/vanguard-ceos-big-challenge-is-dealing-with-success-20180107-h0em2u, (accessed 24 May 2018).

Leaders set the tone through role modelling and describing what is important. Their reactions to critical incidents and crises demonstrate what really matters. How does a board respond to critical incidents and crises? One recent example is the reaction of the board and CEO of Ardent Leisure immediately following the tragedy at Dreamworld which was described as 'legalistic' due to fear of liability.[20] Pushing ahead with the AGM and voting for a bonus for the CEO on the heels of the accident reinforced a view in the community that the board had not set the right tone in handling the crisis.

Research suggests that leader behaviour, the consistency between organisational policy and leader actions, along with leader role modelling, determines the degree to which the organisation's culture emphasises ethics and positive behaviour.[21]

Leader behaviour will signal to individuals what is acceptable behaviour and what is unacceptable. The signals sent by leaders guide the actions of those around them and so, shape culture. For example:

- Do they praise a job well done or do they say nothing?
- How do they react when someone admits to making an honest mistake?
- Do they want to know what caused a mistake so that it can be prevented from happening again, or do they seem more concerned about how much money was lost because of the mistake?
- In meetings, what types of questions do they ask? Are they (in general) open and inquisitive, or closed and directive (e.g. "Don't you think that …?")?
- Do they seem outraged when an employee is disrespectful to a colleague, or does their reaction depend on whether the harasser has status and is well liked?

The answers to these questions are important not only in relation to the CEO, the organisation, and its stakeholders, but also for the relationships between directors and the CEO. When the answers are positive, demonstrated in positive affirming language and effective conversation, then the tone shows commitment to openness, honesty and ethical behaviour and indicates a positive corporate culture.

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[19] J Sarros, J Gray and I Densten, 2002," Leadership and its impact on organizational culture", *International Journal of Business Studies*, Vol 10, No 2, pp 1–26.

[20] P Durkin, 2016, "Dreamworld accident: How to avoid a PR disaster", *Australian Financial Review*, 31 October, https://www.afr.com/leadership/war-games-how-to-stop-a-crisis-turning-into-full-blown-pr-disaster-20161028-gsd3rr, (accessed 25 June 2018).

[21] K Driscoll and M McKee, 2007, "Restoring a culture of ethical and spiritual values: A role for leader storytelling", *Journal of Business Ethics*, Vol 73, No 2, pp 205–17.

For example, in 2015 the US marketing software company Moz was working on a large project (which had been running for two years) to rebuild the systems behind the company's web index. Some of Moz's engineers had privately expressed their worries about the progress and lack of results to CEO, Sarah Bird. In any other company, even a private conversation would have been tough, and the whole episode may well have resulted in a failure of the project and a dent in morale. Instead, Moz founder Rand Fishkin says they took the concern public. During a two-hour meeting, senior staff were invited to ask the big-data team questions. He told *Fast Company*: "It was a great session, and I think everyone walked away feeling more confident in the team and project, as well as more trusting of the individuals involved."[22]

In this company, there are obviously open, honest and affirming conversations in the boardroom and with the CEO, which filters down throughout the organisation.

Rewards—what gets recognised and rewarded, gets done!

Culture is ultimately shaped through success, and reward and recognition systems have a significant impact on the definition of success in any organisation. Rewards and recognition focus behaviours and a key element is whether their emphasis is on results or behaviours, or both!

For instance, some organisations have reward systems that include intangible elements of performance as well as metrics that are easily quantified. Whereas in companies in which goal achievement is the only criterion for reward, there is often a focus on measuring the results without regard for the process (and consequently behaviour), and it is likely the culture will be outcome-oriented and competitive.

Whether the organisation rewards performance or seniority can also make a difference in culture. When promotions are based on seniority, it can be difficult to establish a culture of outcome orientation.

So, the types of behaviours that are rewarded, ignored or punished are what sets the tone and determines how the culture will evolve. And these decisions are critical for both the short and long-term viability of the company.

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[22] L Dishman, "Beyond transparency: Can a culture of 100% honesty work?", *Fast Company*, March 19, https://www.fastcompany.com/3043826/beyond-transparency-can-a-culture-of-100-honesty-work, (accessed 29 March 2018).

The board has direct control over CEO remuneration and performance evaluation. Decisions about how the CEO is remunerated and evaluated will most likely affect how others in the company are rewarded and recognised. At the very least, it will flag to all employees ‘what’s recognised around here’. The board therefore needs to have a clear understanding of the structure of the reward system in place in the organisation. Not only will organisation success depend on it, the board may be held accountable for a reward system that is perhaps set by the CEO or senior management. For example, the Federal Reserve Bank in the United States recently censured Wells Fargo Bank by placing restrictions on its growth and blasted its board for failing to oversee the bank.[23] Wells Fargo had been showered with praise and its reward process had been copied by others for appearing to perfect the art of ‘cross-selling’—selling new financial products to existing customers. It turned out that the incentive system in place for ‘cross-selling’ resulted in abusive sales practices and the creation of millions of fake accounts and inappropriate charges.

The bottom line…

Creating culture
- Founder values and preferences
- Industry demands

Culture is created when the organisation is formed and comes about through the founders’ values and preferences together with industry demands at the time. Being cognisant of this, directors should ask ”How do we sustain such culture, and is there a need for changing or shaping it further?”

Culture is sustained through processes such as selection, induction, rewards and the behaviour of leaders. It’s the role of the board to ensure that these processes are indicative of the culture that will sustain the success of the organisation. The board’s key task here is to ensure that the CEO is the ‘right’ cultural fit.

Sustaining culture
- Selection
- Induction
- Rewards
- Leader behaviour

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[23] E Flitter, B Appelbau and S Cowley, 2018, “Federal Reserve shackles Wells Fargo after fraud scandal”, *New York Times*, 2 February, https://www.nytimes.com/2018/02/02/business/wells-fargo-federal-reserve.html, (accessed 29 March 2018).