Winter 2018

Does your organisation/industry have a culture of exemption?

— **David Hanlon**

In the west and increasingly in other societies there is a demand for socially acceptable practices and behaviours. This is not new: slavery was banned in the US after the passing of the Thirteenth Amendment in December 1865. "Social licence" has been defined as "..the respectful, minimum standards of behaviour groups or individuals may reasonably expect from companies. For example, the social licence to operate is likely to fall when issues remain unresolved in stakeholder-organisation relationships[1]".

The rate of change of what is acceptable versus unacceptable is increasing. Technology has assisted the ease with which stakeholder groups can identify and broadcast practices that fail the above test. What is more troubling is the degree to which some individuals and some organisations believe they are exempt to the continuously evolving "norms" that the wider community expect.

Within Australia
The Australian Institute of Company Directors partnered with KPMG[2] to conduct a survey of almost 600 company directors, to examine how boards were approaching the oversight of trust issues at their organisation.

Just over 94 per cent of respondents agreed or strongly agreed that trust was important to their organisations' sustainability, but only 48.4 per cent felt their board had a proactive approach to building trust with the organisation's most important stakeholders.

Added to this, only 23 per cent said they received "meaningful" metrics on trust in their organisations.

To help understand this, I have reviewed two examples. The first is AMP and the fallout from the banking Royal Commission. The second is the uproar over the deaths of many sheep on the Awassi Express en route to the middle east.

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1 http://accsr.com.au/defining-the-elusive-and-essential-social-licence-to-operate/

2 KPMG & AICD (2018), Trust Survey: Maintaining the social licence to operate. http://aicd.companydirectors.com.au/-/media/cd2/resources/advocacy/research/pdf/06457-1-coms-kpmg-ags-trust-survey-report-a4-28pp-v8.ashx

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First, I have outlined the examples and then I have provided analysis and guidelines to managing.

Example 1. AMP: Our Culture of Help!!

In 2015 AMP issued a their Code of Conduct along with CEO Craig Mellor's introductory message under the heading "Our Culture of Help"[3] (and in 2018 AMP requires a lot of help), was clear and aspirational........

"Everything we do, every decision we make has an impact, not only on the long-term success of our business but also on the lives of our customers. If we are to help people own tomorrow we need to make sure that what we do and how we do it reflects our values of professionalism, honesty and integrity. We need to make sure it is the right thing for our customers, our colleagues, our business and the law.

Our code of conduct sets out the expectations for the behaviour of everyone who represents AMP. You are expected to read the code, understand your obligations and act in accordance with the code."

The accompanying Code of Conduct ends with *"Helpful Questions..... If you are unsure if your actions may breach our code, ask yourself:*

- *What would an AMP customer, shareholder or business partner think of my actions?*
- *What would an AMP customer, shareholder or business partner expect me to do?*
- *Do my actions and conduct demonstrate professionalism, honesty and integrity?*
- *How would my colleagues and leader think or feel about my actions?*
- *What impact do my actions have on the image, reputation and performance of AMP?*
- *Does this feel like the right thing to do in the circumstances?*
- *Do my actions demonstrate what is expected of me as a leader within AMP?"*

Great document and great questions. So, what happened........? How did AMP end up charging customers for advice not given, make false statements to the corporate regulator ASIC about these fees and have 25 revisions of a Clayton Utz audit that was submitted as "independent"?

We can cite many similar examples, however the message is clear: many organisations and/or industry sectors are happy to set a lofty intention yet fail to deliver.

Example 2. Livestock export bans

Live exports of sheep and cattle have continued to operate with a very tenuous social licence. As far back as 1985 the Senate Select Committee on Animal Welfare observed that there was sufficient evidence to stop the trade purely on animal welfare grounds.[4]

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[3] https://www.amp.com.au/content/dam/amp/.../AMP-employee-code-of-conduct.pdf
[4] Tony Gleeson (2018), Are 'emotion-free' arguments best approach in the live export debate. https://www.beefcentral.com/live-export/opinion-are-emotion-free-arguments-best-approach-in-live-export-debate/

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And in the last 12 years we have seen sheep exports banned twice (2006 and 2018) and live cattle exports banned in 2011. Animal welfare activists triggered the 2011 ban by providing Four Corners with undercover video footage showing the appalling treatment of cattle in Indonesia. This ban caused enormous hardship to many northern Australian businesses with a significant number being closed or forced to sell.

Along similar lines, the deaths of some 2,400 sheep on the Emanual Export ship in August 2017 came to light through under cover footage on the conditions causing these deaths resulting in sheep not exported and the industry currently in some turmoil as to the future of this trade. Emanual Exports and perhaps others did not learn from the example.

Whilst, industry may debate the Government of the day's response to any of the above decisions, the emerging trend in what society expects was pretty clear. Industry itself, has allowed this to continue despite all the evidence that their social licence was tenuous.

What causes the corporate culture to head south?

It is easy to point out the problems. However it is far more difficult is to instil the right processes.

In a very pertinent article David Brown and Co at Deloittes[5] point out that "*employee engagement and culture are now business issues, not just topics for HR to debate. And there's no place for organisations to hide.*" And I add, industry culture.

So, what are the key elements that lead to an organisation such as AMP diverging from a clearly desired culture and code of practice. The top five are:

- Poor and/or inconsistent communication;
- Cultural ambivalence – from the board, senior management through to the front line;
- Focus of profit and/or performance bonuses;
- Resistance to change; and
- Inadequate performance management.

1. **Poor and/or inconsistent communication.** The message from AMP issued a directive, yet clearly follow-up was lacking: the board and management failed to ensure the Code of Conduct was implemented. Time and time again we see organisations set lofty codes of conduct and values statements that are not used effectively (if at all) in managing the desired behaviours.

[5] David Brown, Veronica Melian, Marc Solow, Sonny Cheng, Kathy Parker (2015), *Culture and engagement The naked organization.* https://www2.deloitte.com/insights/us/en/focus/human-capital-trends/2015/employee-engagement-culture-human-capital-trends-2015.html

2. **Cultural ambivalence**. Leaders forget the Code of Conduct and focus on production and profits. Perhaps a little glib however in the financial sector, AMP is not alone. In 2016, Wells Fargo confessed to creating 3.5 million fake accounts in their customers' names. The Consumer Financial Protection Bureau fined the company $185 million along with $5 million to refund customers. The issues were discovered by the press: in 2013, a *Los Angeles Times* investigation revealed intense pressure on bank managers and individual bankers to produce sales against extremely aggressive and even mathematically impossible quotas.

3. **The dark side of profit and/or performance bonuses**: Performance bonuses exist in many businesses and go a long way to reward hard workers and share profits with those who help earn it. However, there is a dark side. Research at Harvard University[6] found the financial crisis of 2008 was partially fuelled by the bonuses paid to bank loan officers who were incentivised to approve bad loans. Fast forward to the Royal Commission and we hear of a Bankwest rural bank manager who overvalued rural properties, faked farm finance figures, counted non-existent cows and rigged loan applications was rewarded for his hefty sales effort with a bonus and "rural champion" trip to idyllic Hayman Island.

> **The problem of Bias**
> Less well understood, but uncovered in HBS research several years ago, is that those bank bonuses also caused loan officers to **perceive reality differently**—they believed those loans would succeed.

4. **Resistance to change:** This is probably at the heart of many of the failings seen so far and we are of the opinion it is one of the issues that organisations and industries need to deal with to maintain their social licence. Back to the live export fiascos that have occurred. Operators who fail to meet the welfare standards of the day are bad enough, however the wider industry responses do not encourage change and our tribal instincts dominate[7]. In the case of live exports, the outrage felt by the wider community was/is brushed off by industry.

> **Tribal behaviours**
> There are ancient tribal human behaviours-loyalty, inter-reliance, and cooperation-that flare up in organisations and communities during times of turmoil.

5. **Inadequate performance management:** Back to our Royal Commission. When Bankwest realised the rogue manager's conduct issues a year later in 2012 — after his free tropical holiday and $35,000 bonus — the manager was allowed to resign. A rather soft option and doesn't send a signal of change required in the Bank's culture.

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[6] Sean Silverthorne (2018), The dark side of performance bonuses. Harvard Business School. https://hbswk.hbs.edu/item/the-dark-side-of-performance-bonuses

[7] Sebastian Junger (2016), *Tribe: On Homecoming and Belonging*.