5.1.2

CORPORATE CULTURE AND TONE AT THE TOP

Corporate culture is the pattern of behaviours that people in the organisation actually follow when no one is watching – how decisions are made, how bad news travels, how rules are applied when they are inconvenient. Tone at the top is the signal the Board and executive management send about which behaviours are rewarded, tolerated or punished. The two are inseparable: culture rarely rises above the standard that its leaders visibly practise. Policies, codes of conduct and training matter, but employees watch what leaders do far more closely than what they publish. A single decision – a sales target met by cutting corners and celebrated anyway, a senior manager whose misconduct is quietly overlooked – can undo years of compliance messaging.

Culture is not a soft topic to be delegated to the human resources function. It is a governance matter, because most corporate failures – fraud, safety incidents, mis-selling, sanctions breaches – are cultural failures first and control failures second. The controls existed; people chose to work around them, and leadership signalled, deliberately or not, that this was acceptable.

What the Board should do

Board actions:

1. Define, together with management, a small number of core values and expected behaviours, and approve the code of conduct that expresses them. Keep the language concrete: “we escalate bad news within 24 hours” is more useful than “we act with integrity”.
2. Model the behaviour personally. Arrive at Board meetings prepared, declare conflicts of interest without being prompted, challenge the CEO respectfully but openly, and observe the same rules that apply to employees – including expense discipline and training requirements.
3. Make culture a standing item, not a crisis item. Review cultural indicators at least annually: employee engagement and exit survey results, whistleblowing report volumes and outcomes, staff turnover in control functions, audit findings on behavioural root causes, and disciplinary statistics broken down by seniority.
4. Test consistency between incentives and values. Ask whether the remuneration system rewards the behaviours the code of conduct describes – or quietly rewards their opposite. Ensure that how targets are met carries real weight in performance evaluation, not only whether they are met.

5. Insist on consequence management at all levels. Verify that misconduct by senior or high-performing individuals is investigated and sanctioned with the same rigour as misconduct by junior staff. Nothing corrodes culture faster than visible double standards.
6. Get beyond the boardroom. Visit sites, meet middle managers and employees without executives present, and hear directly from the heads of internal audit, compliance and risk in closed sessions.

Warning signs

- Consistently positive reporting – no bad news, no near-misses, no dissent recorded in minutes.
- A dominant CEO whom no one, including directors, visibly challenges.
- High turnover in the finance, compliance, internal audit or legal functions.
- Whistleblowing channels that receive almost no reports – silence usually signals fear, not virtue.
- “Star performer” exceptions: targets, rules or investigations applied selectively to protect key revenue generators.
- Values posters on the walls that employees quote with irony rather than conviction.

Common pitfalls and drawbacks

Boards most often fail on culture in one of three ways. The first is delegation by declaration: approving a values statement and assuming the work is done. Culture is shaped by thousands of daily decisions, not by a document. The second is measurement theatre: tracking engagement scores as an end in themselves, which invites gaming and tells the Board little about how people behave under pressure. Indicators are prompts for inquiry, not proof of health. The third is inconsistency at the top itself: a Board that tolerates its own late papers, undeclared conflicts or dominant personalities has no credibility demanding better from management. Board members should also be alert to the opposite risk – a culture programme so heavy with surveys, campaigns and slogans that it breeds cynicism. Fewer, more honest signals outperform elaborate programmes.

KEY TAKEAWAYS

A. Culture is what people actually do when no one is watching; tone at the top is the signal the Board and management send about which behaviours are rewarded, tolerated or punished. Culture rarely rises above the standard its leaders visibly practise.

B. Culture is a governance matter, because most corporate failures are cultural failures first and control failures second. It should be a standing Board item, reviewed through concrete indicators, not a crisis item.

C. The Board shapes culture by defining a few concrete values and behaviours, modelling them personally, testing that incentives reward the right behaviours and insisting on consequence management at every level, including senior and high-performing individuals.

D. Governance professionals translate tone into practice: the company secretary keeps culture on the agenda, compliance makes the code and whistleblowing channels usable, internal audit reports cultural root causes, and HR aligns recruitment, promotion and pay with the stated values.

QUESTIONS FOR THE BOARD

1. *Do our stated values translate into a short, concrete code of conduct that employees can actually apply?*
2. *Does the Board itself observe the standards it expects of management, in preparation, conflicts of interest and open challenge?*
3. *Which cultural indicators do we review each year, and what did the last review tell us about the gap between stated values and daily practice?*
4. *Does our remuneration system reward how targets are met, not only whether they are met?*
5. *Is misconduct by senior or high-performing individuals investigated and sanctioned with the same rigour as misconduct by junior staff?*
6. *When did Board members last meet employees and middle managers without executives present, or hear from the heads of internal audit, compliance and risk in a closed session?*
7. *If an employee saw a Board member or the CEO breaching our code of conduct, would they dare to report it, and to whom?*
8. *When did we last decline a profitable opportunity on values grounds, and did we communicate that decision internally?*
9. *How quickly does bad news reach the Board, and does anyone soften it on the way?*