

## Measuring Culture



On many occasions we, and others, have defined good governance as balancing the needs of stakeholders and the objectives of the organisation to achieve long-term, sustainable value for the majority, if not all, of its stakeholders<sup>1</sup>. In recent times, the Australian Securities and Investment Commission (ASIC) has picked up this theme and recognised that a 'toxic culture' was at the centre of much of the Banking Crisis that has plagued the world for the last decade and has announced it will start 'monitoring' the culture of Australian enterprises. The question posed by this post is how do you monitor

culture and is creating meaningful measures for the project and program space a 'project controls' function?

The functions of governance are quite different to, but supportive of the *functions of management*<sup>2</sup> defined by Henri Fayol; the functions of governance are probably best described by Dr. Lynda Bourne's 'six functions of governance'<sup>3</sup>:

- Determining the objectives of the organisation
- Determining the ethics of the organisation
- Creating the culture of the organisation
- Designing and implementing the governance framework for the organisation
- Ensuring accountability by management
- Ensuring compliance by the organisation

From the perspective of 'good governance' the order of importance is top to bottom - understand what the organisation is supposed to achieve, develop the right culture (so the objectives are achieved in the 'right way') and then ensure there are no lapses. Unfortunately, most 'governing bodies' (boards of directors, etc.) seem to spend most of their time focused on the last item and progressively less time the further up the list you go.

Changing this focus will be hard - if you are spending most of your time fighting fires trying to prevent breaches of compliance by management, there is little time left to focus on getting the ethical standards and culture to the level where compliance is largely automatic. However, this is about to start changing and will have ramifications in the area of project, program and portfolio management.

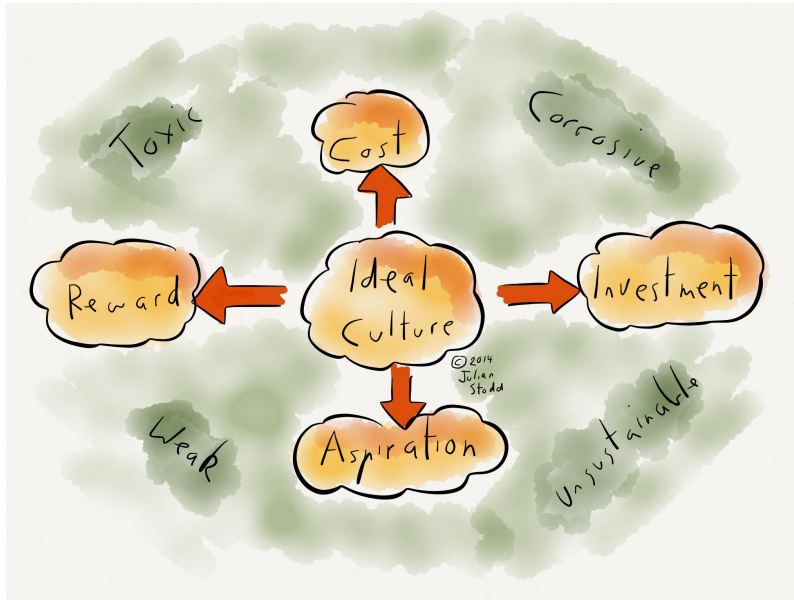
As mentioned above, one of the outcomes from the on-going banking scandals has been an announcement from ASIC that it will start monitoring corporate culture. Which raises the question, what will be the starting point to determine whether or not corporate culture is good, bad, improving or otherwise? This is a very difficult question to answer. Often senior leaders and Board Directors find it a real challenge to

<sup>1</sup> See our **organizational governance** page: <https://mosaicprojects.com.au/PMKI-ORG-005.php>

<sup>2</sup> For more on the **functions of management** see: [https://www.mosaicprojects.com.au/WhitePapers/WP1094\\_Defining\\_Management.pdf](https://www.mosaicprojects.com.au/WhitePapers/WP1094_Defining_Management.pdf)

<sup>3</sup> For more on the **six functions of governance** see: [https://www.mosaicprojects.com.au/WhitePapers/WP1096\\_Six\\_Functions\\_Governance.pdf](https://www.mosaicprojects.com.au/WhitePapers/WP1096_Six_Functions_Governance.pdf)

describe what their company culture is, or what they want it to be. We don't really have a business language for 'culture'; and as one Director stated, "we can't describe it but we know it's there". The simple absence of discovered bad practices does not mean there is a 'good culture' - the absence of evidence is not evidence of absence..... conversely, the presence of 'good management practice' is generally an indicator of good governance but not necessarily!



In project controls space there are some well-defined 'lists' that are indicative of poor management, suggesting poor governance<sup>4</sup>. The problem with this type of list when you move from measuring project performance to measuring governance performance is it's trying to measure the presence of good governance by measuring good management practices. The two are not the same! Certainly, one outcome of good governance is good management practice but governance should be focused on the next level up, the bigger questions of right objectives, culture and ethics.

By way of example, not having a clearly defined project sponsor or 'senior responsible owner (SRO)' is a clear indicator of project failure. The UK public service has used PRINCE2 for many years and the vast majority of projects have a clearly defined SRO (a tick in this type of list). However, the 2018-19 report from the Major Projects Authority<sup>5</sup> shows a 'turnover rate' among SRO's of 24% in the last year - the turnover rate for Project Directors is even higher. A turnover rate of this magnitude suggests major governance failings, either the wrong people are being appointed, or they are being 'blamed' rather than supported in what is by definition a very difficult role (a major cultural failing). However, the good news is these rates have improved significantly since 2013, and there has been a marked reduction in project failures.

The functions of governance involve setting the correct objectives, culture and ethics for the organisation, and then ensuring management operate effectively within these guidelines, the value of traditional check lists focused on management performance falls into the last of these elements, providing assurance that management is working effectively. It does not deal with the bigger cultural question, are the managers

<sup>4</sup> For a list of these *surveillance factors* see:

[https://www.mosaicprojects.com.au/WhitePapers/WP1080\\_Project\\_Reviews.pdf](https://www.mosaicprojects.com.au/WhitePapers/WP1080_Project_Reviews.pdf)

<sup>5</sup> Major Projects Authority annual report 2018 to 2019, Fig. 14, page 28:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/817654/IPA\\_AR\\_MajorProjects2018-19\\_web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817654/IPA_AR_MajorProjects2018-19_web.pdf)

displaying a desirable set of cultural and ethical behaviours? In fact meeting this type of checklist or similar 'targets' such as sales levels, profits and similar easy to count 'factual measures' can cause toxic cultures to emerge (as has been demonstrated in the banking industry and its short-term focus on earning bonuses and profits rather than customer satisfaction); as we've suggested before *what you measure is what you get*.

The effects of 'bad culture', greed and criminality are fairly easy to see after the event, the damage to people is obvious. But how do you measure good and improving culture? Certainly, from my background in project controls over the last 40 years three key elements have remained consistent:

- You really do get what you measure.
- What really matters is usually not easy to measure.
- Independent verification is essential.



So how can these simple principles be used to measure corporate culture in a reasonably precise and reliable way?

One aspect to consider would be to look at the KPIs for senior executives. This would require defining cultural and ethical targets that align with the organisations 'values and mission statement'. Setting the right KPIs is critical and whilst 'culture' itself is probably not measurable there are likely

to be some viable proxies such as:

- The level of and trend in customer complaints.
- The level of and trend in staff turnover (particularly junior staff).
- The ratio of favourable comments in social media compared to negative comments.
- The percentage of staff volunteering for CSR type extra curricula activities.

If the organisation has happy clients and its staff enjoy working for the organisation, there is a fair chance its overall culture and ethics are good. However, before being used as a 'measure', this assumption has to be validated which will require some form of anthropomorphic study of the organisation.

Another option is to identify conflicts between KPIs and the organisation's cultural objectives and assess how they are being addressed; for example every bank has a mission statement that includes excellence customer service..... but many banks incentivised staff to sell inappropriate products to people (the big bonuses were for the 'high risk' products) and also incentivised their managers to ignore the problems being caused by the banks financial advisors by linking the managers bonuses to sales levels. The current 'banking crisis' is a direct result of people in the banks performing to achieve the bonuses offered by the banks to maximise short term profits, to the detriment of the objective of 'excellent customer service' - it really is a case of ***'What you measure is what you get'***<sup>6</sup>.

One manifestation of the organisation's culture and ethics is the attitude of the organisation's staff and again it's easier to pick 'bad attitudes' the good ones. Some of the damaging attitudes that may reflect a less than ideal culture (particularly around projects) include:

- **Anti-Authority:** "Don't tell me what to do" - they may be resentful of having someone tell them what to do, or may regard rules, regulations, and procedures as unnecessary. But it is always someone's prerogative to question authority if they feel it is in error.
- **Impulsivity:** "Do it quickly" - a lack of adequate planning is always dangerous.

<sup>6</sup> For more on ***what you measure is what you get*** see:

[https://www.mosaicprojects.com.au/Mag\\_Articles/SA1018\\_What\\_you\\_measure\\_is\\_what\\_you\\_get.pdf](https://www.mosaicprojects.com.au/Mag_Articles/SA1018_What_you_measure_is_what_you_get.pdf)

- **Invulnerability:** “It won’t happen to me” - people who think this way are more likely to take chances and increase risk.
- **Macho:** “I can do it” - to an extent desirable in a project manager, but people with this type of attitude will try to prove themselves by taking risks in order to impress others.
- **Resignation:** “What’s the use?” - people with this attitude do not see themselves as being able to make a great deal of difference in what happens to them, good or bad outcomes, its always either luck or someone else....

A prevalence of any or all of these negative attitudes suggests poor management and a suboptimal culture. Measuring them accurately and particularly identifying changes is much more difficult! Models are starting to be developed, one is the CAIR diagnosis by Julian Stodd<sup>7</sup> but there’s a long way to go.

However, with ASIC on the case, you can bet your ‘governing body’ is starting to worry about measuring ethics and culture, so sooner or later the way you run your PMO, program or project will come under review. You can treat this as another compliance issue, or you can use it as an opportunity to increase productivity in your teams - the paradox is the very close alignment of motivational theory and the cultural aspects of good governance - people are intrinsically motivated to do a good job<sup>8</sup>, and an effective leader displays high ethical standards<sup>9</sup>.

The one thing that is certain ‘measuring culture’ will be a very interested space to watch as it evolves and in the realm of managing projects, is likely to fall into the area of responsibility of a strategic PMO.



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<sup>7</sup> For more on the CAIR diagnosis see: <https://julianstodd.wordpress.com/2014/01/08/measuring-the-pressure-on-organisational-culture-the-cair-diagnosis/>

<sup>8</sup> See more on **motivation**: [https://www.mosaicprojects.com.au/WhitePapers/WP1048\\_Motivation.pdf](https://www.mosaicprojects.com.au/WhitePapers/WP1048_Motivation.pdf)

<sup>9</sup> See more on **ethical leadership**: [https://www.mosaicprojects.com.au/WhitePapers/WP1001\\_Ethics.pdf](https://www.mosaicprojects.com.au/WhitePapers/WP1001_Ethics.pdf)