



# THE BOARD'S ROLE IN ORGANISATIONAL CULTURE

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# ABOUT THIS DOCUMENT

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Culture starts in the boardroom. The setting and oversight of the organisation's ethical framework is core board work. In a world of increasing accountability beyond the bottom line it cannot be ignored or delegated. Sport and active recreation organisations receive time and money to create good within the community. It must be clearly visible that the means pursued are just and ethical in the contemporary world and fully consistent with the good they are trying to create.

This paper has been developed by Sport New Zealand (Sport NZ) and BoardWorks International for the boards of New Zealand sport and active recreation organisations. We believe it will prove useful for national and regional bodies, as well as club and other similar committees at all levels of the sector.

It sets out why organisational culture is important, together with some practical steps for boards and committees to maintain the required ownership and oversight in this important area of governance.



As the behaviour of individuals and organisations correctly comes under increasing scrutiny, one thing is clear. Responsibility for setting standards begins in the boardroom. We expect all directors will live up to their leadership obligations in setting, modelling and monitoring the expected behaviours that we associate with the best things that sport and active recreation can deliver to our communities.”

- BILL MORAN, CHAIR, SPORT NEW ZEALAND AND HIGH PERFORMANCE SPORT NEW ZEALAND

# THE IMPORTANCE OF CULTURE

## ORGANISATIONAL CULTURE



Culture isn't just one aspect of the game, it is the game"<sup>1</sup>

Organisational culture (culture) is the way people behave, what they believe and the values they hold – generally without any conscious thought. It is expressed through the way people act in the workplace, the beliefs and values they hold and how these interact with workplace behaviour.

Successful organisations display a strong connection between the personal values held by employees and directors and the espoused organisational values. The value set of an adult is fixed and cannot be changed by slogan or edict. The issue is then one of fit between the desired organisational values and the individual.

## ELEMENTS OF CULTURE

Culture exists in two groups: visible and invisible. Visible elements can be written, and include things such as strategy, goals, statements of values and policies. The invisible or 'below the waterline' elements are likely more important drivers of culture. These include beliefs, tradition, stories, unwritten rules and accepted norms. These contribute to the 'way we do things round here'.

In their model outlining components of culture, Johnson and Scholes<sup>2</sup> place emphasis on stories, symbols, rituals and routines. Water cooler stories are central to culture. What is rewarded, what is deemed to be success, what is seen but ignored, what is espoused but not lived by or perceived extravagance all slowly build culture. Statements of values that are not lived, or exist without the necessary control systems, will not permeate the organisation. The reason for having each stated value needs to be made clear.

## IMPACTS OF CULTURE



Just 14% of employees are engaged in their job, showing up every day with enthusiasm and the motivation to be highly productive"<sup>5</sup>

Peter Drucker is credited with the phrase "culture eats strategy for breakfast".<sup>3</sup> Without attention to culture, driven from the top of the organisation, any new strategy direction, restructure or major initiative is at risk of failure as a dysfunctional culture quietly reasserts itself.

In its highly analytical work on values, the Barrett Values Centre<sup>4</sup> has demonstrated that, beyond a certain point, mismatch between personal and corporate value sets is an accurate predictor of organisational failure and likely collapse.

Employee engagement is one possible measure of a healthy culture. In its 2017 report<sup>5</sup> Gallup noted only a small number of New Zealand and Australian employees were positively engaged in their jobs.

Globally those firms with disengaged workers had significantly higher absenteeism, accidents, and errors or defects. Consequently, those organisations showed lower productivity and profitability and a remarkable 147% lower earnings per share.

Neuroscientist Paul J Zak<sup>6</sup> has measured the difference between high and low trust environments, noting markedly higher levels of energy, productivity, engagement and satisfaction and lower rates of absenteeism, sickness and burnout.

The extreme failures of culture that make the headlines and swirl on social media impact brand and reputation. They will have direct consequences on stakeholder, investor and customer relations.

1. Lou Gerstner, then CE of IBM, quoted in Collins, J. *How the Mighty Fall*. HarperCollins, 2009.

2. Johnson, G, R Whittington and K Scholes. *Fundamentals of Strategy*. 2nd ed. Essex: Pearson Education Limited, 2012.

3. <https://thoughtmanagement.org/2013/07/10/culture-eats-your-structure-for-lunch/>

4. <https://www.valuescentre.com/>

5. Gallup. *State of the Global Workplace*. New York: Gallup Press, 2017.

6. Zak, P J. *Trust Factor: The science of creating high-performance companies*. New York: AMACOM, 2017.

# ISSUES FOR SPORT AND ACTIVE RECREATION

“

The alignment of sport’s espoused values and lived behaviours has been found wanting”

In New Zealand, challenges inside Cycling<sup>7</sup> and Football<sup>8</sup> have been assessed in lengthy reports. A report on Australian Cricket<sup>9</sup> has also been released. In America the US Olympic Committee announced it was moving to strip USA Gymnastics of its power as a national governing body following the scandal within the sport.

The relationship between a high-performance athlete or team and the coach is complex. Both parties are driving to find that little extra margin that will elevate performance above a crowded field, but there is no one model or approach that guarantees success. The drive for excellence in a physical discipline is of course not unique to sport. The worlds of professional dance and classical music, for instance, are analogous in the long hours of necessary training for the mind and body. They too have had their share of scandal over the years.

There are ample codes for working with professional athletes and most sports already have these in place. In any discipline, regardless of the approach, the core of the relationship between the coach/teacher and high-performing athlete must be deeply rooted in mutual respect and trust, not coercion or threat.

These principles are equally important in community sport. This is where most participants are involved and it is the pathway for future elite athletes. The Sport NZ Integrity Review<sup>10</sup> is examining the key role boards and management committees across all codes (regions, districts and clubs) play in supporting healthy organisational cultures. This includes taking a leadership role at the ‘grass roots’ in identifying and addressing negative, outdated attitudes and behaviours in a way that sets a healthy and safe environment for everyone involved in sport and recreation – at all levels. This applies equally to participants, coaches, managers, referees, administrators and supporters.

The outcomes from this review, which will be released in the coming months, will add valuable insights and recommendations for the sector.

Given this, and the fact that adequate frameworks already exist, mostly driven from relevant legislation, the question is how to ensure adherence to good practice as a matter of course within the company culture.

7. Heron, M. *Independent Review of Cycling New Zealand High Performance Programme*, 2018.

8. Muir, P. *Independent Review into NZ Football*, 2018.

9. *Australian Cricket: A matter of balance*. The Ethics Centre, 2018.

10. <https://sportnz.org.nz/assets/Sport-Integrity-Review/Sport-Integrity-Review-Discussion-Document-30-October-2018.pdf>

# THE ROLE OF THE BOARD



Hands down, the most persistent governance challenge is the obligation to exercise oversight over workforce culture”<sup>11</sup>

The setting, modelling and oversight of organisational culture rests with the board, as noted in Bob Garratt’s seminal book, *The Fish Rots from the Head*<sup>12</sup>. In the responses to recent crises, including Football New Zealand, Cycling New Zealand, Russell McVeagh, Cricket Australia and the Commonwealth Bank of Australia, a lack of governance oversight has been to the forefront.

Culture is now understood to be so central to organisational reputation and performance that it cannot be delegated or abrogated to the chief executive.

Having set the expectations, the board must then have a clear and transparent process for maintaining a line of sight on the ethical performance of the organisation. This will include reporting from senior staff but from time to time will go beyond that.

There are three methods by which boards can obtain any form of monitoring and evaluation information: chief executive reporting, direct observation and independent review.

In many senses this is analogous to the expectations placed on directors for health and safety. Matters such as workplace bullying relate directly to that legislation. Directors have a clear obligation to ensure that the appropriate systems and processes are in place and that they monitor and verify implementation of these on a regular basis. Components of workplace culture and behaviour fall under the Health and Safety at Work Act 2015, others are under prevailing employment legislation and some will be included in the expression of overall values and within governance policy.

The recently released King IV (South Africa) governance code neatly summarises the board’s role.

*The governing body should exercise ongoing oversight of the management of ethics and, in particular, oversee that it results in the following:*

- a. *Application of the organisation’s ethical standards to the processes for the recruitment, evaluation of performance and reward of employees, as well as the sourcing of suppliers.*
- b. *Having sanctions and remedies in place for when the organisation’s ethical standards are breached.*
- c. *The use of protected disclosure or whistle-blowing mechanisms to detect breaches of ethical standards and dealing with such disclosures appropriately.*
- d. *The monitoring of adherence to the organisation’s ethical standards by employees and other stakeholders through, among others, periodic independent assessments.*<sup>13</sup>

11. Peregrine, M. ‘The most persistent of all governance challenges’. 29 October 2018.

Retrieved from <https://www.forbes.com/sites/michaelperegrine/2018/10/29/the-most-persistent-of-all-governance-challenges/#6f324d8b6c59>

12. Garratt, B. *The Fish Rots from the Head*. London: HarperCollins Business, 1996.

13. *King IV Report on Corporate Governance for South Africa 2016*. Institute of Directors in Southern Africa, 2016. p. 45.

## POLICY SETTING

Relevant policies will exist at two levels. At the high level, policies prescribe the positive benefits that the organisation exists to deliver to its stakeholder groups. The board charter will also make clear to the chief executive the conditions and situations that must be avoided in pursuit of the stated ends. Detailed codes and frameworks are operational documents, created, maintained and promulgated by management. The board will, however, take an interest in these, ensuring they are consistent with the overarching statements. Within governance process policies there will be a statement on how the board intends to maintain oversight.

The current Sport NZ template board charter includes policy statements on:

- the role of the board as owners of culture
- board ownership of relevant procedures and controls
- oversight of the workplace environment
- obligations under the Health and Safety at Work Act 2015
- board expectations of the chief executive regarding employment conditions, treatment of staff and volunteers, who are all owed a duty of care, and systems for raising concerns.

The full clauses are in the appendices and the full charter is on the Sport NZ website.

The statements are clear and lay out the responsibilities for the setting of culture, adherence to the law, creation of policies and systems, and responsibility for verification.

## WHERE BOARDS GO WRONG



...serious issues around player welfare and staff culture should have had Board visibility, and this created risk, a lack of engagement from some staff and confidence issues with some key football stakeholders”<sup>14</sup>

What is seen and ignored is condoned. The reports on Football and Cycling note that, while written standards did exist, they were not being honoured. That fact was known but appropriate action was not taken. Facing up to a serious issue within the culture is hard but inaction will be worse.

The chief executive is a key determinant of culture. Ensuring the correct individual is recruited and continues to live the values is crucial. But leaving it to the chief executive alone is no longer adequate.

When boards have a problem in their own ranks this is often regarded as too hard and is glossed over. Expecting high standards of behaviour through the organisation is unrealistic when there are issues at the very top. As difficult as it is, these must be addressed.

Change to a culture will take time and require ongoing regular attention. Culture is usually deeply embedded in a company whether it is positive or negative, and it is a slow, difficult process to shake it up, needing skill and persistence. In sport this extends from grass roots to the podium, clubs to national bodies, as noted in the review of USA Gymnastics. Expectation of a quick fix is a false hope.

The board's oversight of culture is more than adherence to the minimum legal requirements. That minimal approach will omit key elements such as integrity, transparency and doing the right thing for all stakeholders.

14. Muir, P. *Independent Review into NZ Football*. 2018. p. 13.

# PRACTICAL STEPS FOR THE BOARD



The board should assess and monitor culture. Where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the company's purpose, values and strategy, it should seek assurance that management has taken corrective action"<sup>15</sup>

The need for the board to acknowledge that its accountability extends into the area of culture is clear. The challenge for a part-time and generally voluntary body is how, but this shouldn't be overwhelming.

Included below are two tools you can use to help your board or committee address its role in organisational culture.

The first is a set of recommended tactics - some of which you may already be doing, others may represent areas for easy improvement. The second tool is Sport NZ's template board charter. An overview of key sections is provided below, and the full template can be accessed on the Sport NZ website (see Recommended Reading in the Appendix to this document).

## Recommended Tactics

- maintaining a permanent agenda item on organisational culture alongside health and safety (grouped as people and organisational culture)
- including an annual deep dive into this area on the board's work plan
- adding culture to the mission-critical items on the risk register
- broadening directors' understanding of their health and safety obligations to include culture
- clearly stating values and publishing them widely together with the reasons for each item
- including in your annual report the statement of values and the board's approach to ensuring these are lived within the organisation
- providing opportunities for board members to experience the organisation at all levels
- referencing major decisions to organisational purpose, values and principles
- ensuring recruitment processes have clarity about the culture of the organisation and the behaviours that are consistent with the values required
- including relationship and culture questioning in a regular stakeholders' survey
- broadening the chief executive's performance review to include internal and external opinion on lived values
- having the board commission occasional, independent verification of organisation culture and workplace climate
- establishing clear, secure whistleblowing processes that flow through an independently monitored channel – the board has visibility for these
- ensuring the board has visibility of key relevant reports (eg, international tour and tournament reviews and debriefs)
- discussing any incidents, learning from them and acting on them
- questioning the high-performance leader directly on elements of culture
- adopting zero tolerance of behaviours (athletes, board, staff, volunteers) inconsistent with espoused culture and values
- continuing to drive for diversity in the boardroom and within senior teams
- undertaking closer engagement, alignment and support at a national, regional, district and club level.

<sup>15</sup>. Financial Reporting Council. *The UK Corporate Governance Code*. London: FRC, 2018.



## Sport NZ Template Board Charter

The current Sport NZ template board charter includes the following statements.

### The Board and Culture

*Determines the appropriate culture for (Name of organisation) and models behaviours that both reflect and promulgate the desired culture.*

*Establishes governance policies that provide the framework for the management of (Name of organisation) e.g. financial, human resource, asset management policies, and ensures that internal processes and procedures are designed to provide effective controls and serve as the basis for reporting to the board as required.*

*The governance process policies under the Code of Ethics notes that the board will:*

*Make reasonable enquiries to ensure that (Name of organisation) is operating efficiently, effectively, legally and ethically in the pursuit of its planned outcomes and strategies.*

*Meet its responsibility to ensure that all staff employed by (Name of organisation) are treated with due respect and are provided with a working environment and working conditions that meet all reasonable standards of employment as defined in relevant workplace legislation.*

### Health and Safety

*The board has a core duty to ensure that all relevant elements in the Health and Safety at Work Act 2015 are met. Accordingly, the board will:*

- 1. Ensure that all directors understand and discharge their duties and responsibilities under the Act.*
- 2. Ensure that robust systems are designed so that the board will receive regular information in the form of written and verbal reports necessary to exercise its duties under the Act.*
- 3. Verify that records are maintained in a timely and accurate fashion enabling tracking of events, trends and responses/actions.*
- 4. Understand the hazards and risks that employees and volunteers are, or might be, exposed to in carrying out their duties.*
- 5. Design a system that ensures that all directors have the opportunity of personal exposure to workplace processes where there is exposure to risk.*
- 6. Annually undertake a formal assessment of compliance with directors' duties and responsibilities under the Act.*
- 7. Ensure that budget planning takes account of all requirements under the Act.*

*Under the section on Chief Executive Delegation there is clear guidance on board expectations regarding employment. This extends to volunteers and everyone who is owed a 'duty of care'.*

## Employment Conditions

*In the management of the organisation's staff and volunteers, the Chief Executive must ensure that the workplace environment is conducive to ethical behaviour consistent with (Name of organisation)'s core values, and sound workplace practices consistent with workplace legislation or its common understanding. Without limiting this scope of requirement, the Chief Executive must not allow situations and circumstances in which:*

- 1. Employees work under adverse conditions or are managed in a manner that may invite behaviour contrary to (Name of organisation)'s values or that might undermine (Name of organisation)'s trust and reputation with its stakeholders.*
- 2. There are no clear guidelines as to employee rights, entitlements and workplace obligations.*
- 3. Employees are placed in 'inequitable', 'unsafe', 'undignified' or 'unfair' working conditions or circumstances as defined in relevant workplace legislation.*
- 4. Employees and volunteers and others to whom (Name of organisation) owes a duty of care, are exposed to, unprotected from, or unprepared-for hazardous and risky situations or circumstances that could result in harm as specified in the Health and Safety at Work Act.*
- 5. Staff are denied engagement in planning and review of health and safety policies and procedures.*
- 6. Continuous improvement protocols are omitted in the design and execution of health and safety systems and processes.*
- 7. Employees are denied the right to an approved and fair internal grievance process.*
- 8. Employees are uninformed of their rights under this policy.*

To access the full board charter template see Recommended Reading in the Appendix to this document).

# APPENDICES

## INTERNATIONAL CODES

The requirement for board-level oversight of company culture has featured strongly in recent revisions of governance codes and approaches by regulatory authorities.

The Australian Securities and Investments Commission (ASIC) has reinforced the role of the board in setting culture:

*...the board should set the values and principles of an entity's culture, which should be reflected in its business's strategy, business model and risk appetite. These must then be consistently demonstrated by the board and senior management and cascaded throughout an organisation.<sup>16</sup>*

In the United Kingdom, the Financial Reporting Council (FRC) in its new code<sup>17</sup> is encouraging companies to focus on broader aspects of governance such as culture and strategy. The second of its five leadership principles states:

*The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.*

At home, the New Zealand Stock Exchange (NZX) Corporate Governance Code<sup>18</sup> notes:

*Ethical behaviour is at the heart of good corporate governance and underpins an issuer's reputation. To maintain high ethical standards, it is important that an issuer has clear and consistent expectations of all its directors and employees, and that behaviour is modelled from the top down. A good code of ethics commits each and every person to the same standards and promotes a workplace culture of transparency. The code should be easy to read, apply to all persons throughout the issuer's organisation... .*

The King IV governance codes<sup>19</sup> from South Africa were noted in the body of the paper.

## RECOMMENDED READING

Visit [sportnz.org.nz/boards-culture](http://sportnz.org.nz/boards-culture) to access the following:

### Template

Sport NZ Board Charter Template

### Recent Sporting Reviews

Cycling New Zealand

Cricket Australia

New Zealand Football

ICSA Organisational Culture in Sport

Sport NZ Integrity Review Discussion Document

16. John Price, ASIC commissioner writing in *Company Director* magazine September 2015  
<https://asic.gov.au/regulatory-resources/corporate-governance/corporate-governance-articles/culture-conduct-and-the-bottom-line/>

17. Financial Reporting Council. *The UK Corporate Governance Code*. London: FRC, 2018.

18. *NZX Corporate Governance Code*. NZX, 2017. p. 7.

19. *King IV Report on Corporate Governance for South Africa 2016*. Institute of Directors in Southern Africa, 2016.



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