Corporate culture rot starts at the top

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Ray Williams, it is said, prided himself on his manly bearing, favouring smart, dark suits tailored to his tautened physique, and always greeting visitors with a firm, sincere, double-handed handshake. He preferred, too, to keep the wider world at a distance, buying the house of his Mosman neighbour for $5 million to preserve his privacy, and commissioning a private chapel for his walled Lake Macquarie retreat rather than expose his family to the prying eyes of a public congregation.

That poise did not desert him last year when he became Australia's best-known and most-maligned chief executive officer, at the royal commission investigating the collapse of the HIH insurance group which he had headed for 30 years. He seemed cool, detached, crisply laundered, oblivious to the media's enfilade of inquiries, his thin, unparting lips shaped in a mirthless smile. His severe countenance belied the excess involved in HIH's $5.3 billion failure in March 2001.

Justice Neville Owen's report on April 1, 2003, begins with a Shakespearean flourish: "Beware the Ides of March." History's most famous unheeded warning, says Owen, "resonated eerily" throughout the commission, HIH's "shambling journey towards oblivion" having begun long before. The reader braces instinctively for a story of cabal and conspiracy, of hubris and nemesis - and the judge comes to bury the CEO not to praise him, citing "blind faith in a leadership that was ill-equipped for the task", in which "the hand and influence of Williams were paramount".

HIH, it emerges, spent tomorrow's money today to satisfy its cravings for premium income, plunging headlong into the acquisitions of CIC in June 1995 and FAI in September 1998 as it also threw good money after bad in the US and UK. And on these condemnations did the attention of journalists naturally alight, translating into damning headlines: "Blind faith, naked greed", "HIH boss blamed for collapse", "HIH chief faces jail" and, of course, in anticipation of the salutary smack of firm government, "Costello pledges justice for all".

Yet what detains the eye in Owen's report is what might be considered a corporate variation on Hannah Arendt's "banality of evil": the mundanity of mismanagement. HIH, says the judge, was "not a case where wholesale fraud or embezzlement abounded", and "by and large the people who were involved were not inherently bad or in some way set upon being part of a corporate disaster". After three decades in charge, Williams was unrivalled in "authority" and "influence". But his control depended on there being "insufficient ability and independence of mind in the organisation to see what had to be done and what had to be stopped or avoided"; failure was as much an outcome of "a culture of apparent indifference or deliberate disregard on the part of those responsible for the well-being of the company".

Justice Owen reveals an organisation that was "often flying blind". Its electronic financial system provided incorrigibly incomplete and inaccurate information. Its general ledger had unreconciled accounts dating back to 1995. The reporting regime was lax, the audit committee misconstituted, the budgeting process misconceived, the preparation of financial information was being manipulated by lower-level managers; the judge worries explicitly that preoccupation with bosses and boards "may cause to be overlooked the reality of the necessarily greater part that executives and other employees play in the day-to-day running of many corporate businesses". And all in an environment which was, from the mid-1990s, one of falling interest rates, lower investment returns, poorer premium rates, costlier underwriting losses and escalating claims.

By far the shrewdest reading of the report came from Trevor Sykes in *The Australian Financial Review*: "HIH was run so badly it is surprising it lasted as long as it did. If there were any fundamental mistake they did not make, it must have been an oversight."

Even with a vainglorious boss wielding unilateral power, a management heedless of the morrow, a riven board, avaricious associates, compromised advisers and a succession of destructive deals in hazardous commercial conditions, HIH took a long time to die; indeed, for much of its lifetime as a listed company, its share price was rising. This is not the stuff of headlines, but it is the stuff of this essay. Business failure is complex - and so is business success. If it sounds like a form of exculpation to imply that CEOs aren't as bad as we are inclined to imagine them, then it also follows that they were not, are not and never will be as good as they and others pretend.

Why do some corporations cohere while others tend towards chaos? Such ponderings are loosely grouped under the heading "corporate culture". In his report on HIH, which has frequent recourse to the phrase, Justice Owen defines corporate culture as "the charisma or personality - sometimes overt but often understated - that guides the decision-making at all levels of an organisation".

A more succinct summary might be "the way people work when they think nobody is looking". In a bad culture, they're probably looting the stationery cabinet, forging expenses chits and downloading porn, like the miserable galley slaves in the Slough branch of Wernham Hogg on television's *The Office*; in a good culture, they may be checking a consignment, streamlining a process or consulting a customer about their needs, like the perky folk of Wal-Mart with their company songs and corny stunts. Most corporations feature a bit of both; informal homeostatic mechanisms counter one with another.

Culture is a phenomenon perceptible, as it were, only out of the corner of one's eye. It registers in routines and rituals, lore and legend. It springs sometimes from a guiding principle, such as Nordstrom's famous instruction to staff, "Use your good judgement in all situations". It is manifested in gestures, like the freedom HP and 3M allow for unsupervised research, acknowledging that innovation springs from curious tinkering as often as from concerted R&D; and like Merck's decision simply to give away the anti-river blindness drug Mectizan when no African government could afford it, because failure to do so might have demoralised its scientists. It transcends group hugs and team-building tosh.

Some companies thrive on a sense of lawlessness: the Apple ethos, Steve Jobs once rationalised, involved it being more fun to be a pirate than to join the navy. But culture is usually inculcated by a sense of shared values, common attributes and what organisational theorists call "fair process": open, apolitical decision-making that nurtures trust and creativity.

If this sounds like common sense, that's because it is. Most writing about corporate culture is pretentious, as though the insight that people look to their jobs for more than money is somehow as significant as decrypting DNA. The title "Director of Human Resources" still sounds eerily Orwellian, suggesting a form of personal strip mining that leaves only human craters and human tailings. Pity, really.

While its study involves wrestling with ambiguities and searching for behaviours that must by definition occur out of sight, culture matters. Just as social maladjustment is often rooted in familial dysfunction, so corporate failure usually correlates closely with cultural weakness. And where this used to be a matter of organisational rigidity and conformity preventing adaptation and innovation, dynamic fluidity and flexibility have turned out to pose their own perplexities.

Australia's outstanding recent case study is One.Tel, as ineptly run as it was incompetently led. The philosophy of CEO Jodee Rich, as described by journalist Paul Barry, was "a mixture of Deepak Chopra, est and New Age management theory". The words "desk" or "meeting" were prohibited. Its "Beliefs and Values" enjoined workers to "Take time to think" and "Lie on the grass". But as the company churned and burned thousands of customers, chaos reigned:

"Finding the person responsible for doing a particular job could be a nightmare. The telephone list didn't tell you who did what and no one had offices, so new managers found themselves wandering down the rows of pods, asking for people by name. The lack of job titles made it easy for people to claim it was not their job to do what was needed."

Insiders told Barry that One.Tel was "run like a fish and chip shop", with "no structures, no accounting systems, no processes and no controls". The openness, too, was skin deep. "Why don't you focus on the positives?" Rich would say when managers pleaded for staff and resources. "What wins have you had today?" When One.Tel's billing system collapsed, no one dared tell him; when call centres overloaded, operators simply "dumped".

An experienced dumper could get rid of 5000 calls a day by answering the phone on mute, hitting the transfer button and pressing autodial, which brought the caller back into the One.Tel switchboard as a new call. The trick worked wonders with the figures. The system scored the dumping as 5000 calls answered and 5000 fresh calls received - so there was a huge increase in productivity and a corresponding fall in average wait times.

Culture, it could be argued, has seldom mattered more. Companies have never been larger, more complex, more dispersed, less supervised. Most of our work in a given day doesn't happen because someone told us to do it; it occurs because of unspoken understandings about our role, and trust in our commitment to a common cause.

Where does this leave CEOs? The company's profit and price cannot be reliably ascribed to what they do on a daily basis. Their actual business decisions will stand or fall on how well they are implemented. They were once vital and visible presences in their corporations, but now, above the fray, preoccupied with the demands of investors, analysts and the media, they've never seemed more remote: so many faceless suits, tarting up their franchises with a few acquisitions, occasionally screwing down costs to keep shareholders sweet, and demanding unswerving loyalty even while they're being schmoozed by head-hunters, as their rewards depart ever farther from the mean. Far from preserving their corporation's cultures, they might even be endangering them.

Common sense tells you some other things too. Money is not only a motivator; it can also demotivate. The exorbitant rewards of a boss they do not know, never see and barely understand hardly stirs a middle manager or worker to greater effort.

The disruptive effect of big rewards was first systematically observed in the late 1930s by Joseph Scanlon, an accountant and union official at LaPointe Steel in Pennsylvania, who staved off bankruptcy with a pioneering experiment in compensation restructuring: he noted that where bonuses were paid to a group of workers, that group was likelier to support and respect higher performers, but where bonuses were targeted to outstanding individuals, the result was enmity, disunity and sometimes outright sedition.

One can only speculate on the corrosive impact of buoyant CEO salaries, especially in a period of profit stagnation, not to mention the trend to gross executive payouts on resignation, retirement and even retrenchment when all jobs are threatened. Some have criticised modern CEOs for being too obsessed with appearances; on the contrary, they may care too little. Ken Iverson of Nucor, the last American steelmaker worth the name, has pointed out what seems to have eluded so many others of his rank and generation:

"The people at the top of the corporate hierarchy grant themselves privilege after privilege, flaunt those privileges before the men and women who do the real work, then wonder why employees are unmoved by management's invocations to cut costs and boost profitability When I think of the millions of dollars spent by people at the top of the management hierarchy on efforts to motivate people who are continually put down by that hierarchy, I can only shake my head in wonder."

Big salaries, then, are not merely hard to justify; they may be compromising the companies that pay them. And if CEOs are incapable of perceiving this, others will have to help them.

This is an edited extract from Quarterly Essay 10, Bad Company: The Cult of the CEO, by Gideon Haigh ($12.95).

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