A Conversation With...

Mike Gostick

After 30 years in the City, conversations surrounding our work in the areas of corporate governance, systems and controls have never been so interesting. With that in mind, we recently launched Halsey Consulting Hosts, a series of breakfast meetings where we are able to engage with our guests in relaxed debate focussing on interesting topics of the day.

At a recent breakfast we talked about the impact of HR on the conduct and culture of an organisation – a topic that had been highlighted a while ago by one of our guests. Nigel Halsey and Caroline Keetch later reflected on the discussion with one of our Advisors, Mike Gostick.

MG: There was a lot to digest from our discussion this morning but it seems to me that the issue lies with the fact that HR is not a controlled function. Where you’ve got someone who is trading and therefore impacting the end customer directly, they’re picked up as controlled functions of one form or another. Yet HR, a department that is arguably an important guardian of the morals and ethical standards of a company, is not a controlled function. However HR clearly has, or should have, a critically important role in making sure that the performance management systems that go to the heart of all the recruitment practices, the disciplinary arrangements etc, are all part and parcel of supporting the culture which at the end produces the right result for the customer.

NH: But culture doesn’t exist in a vacuum does it? Culture is the result of actions.

MG: Yes, I’d make an analogy here of a garden. You can let the garden grow wild and you’ve still got the garden, or you can cultivate it to look the way you want it to look – to suit how you want your house to be. I think the role of the executive, hopefully guided by the HR Director, is to get the garden looking the way they think it should.

NH: So how do you start? Do you start by stating what your vision of the culture of the organisation is?

MG: For me, the question is what are we here as a business to do? What is our vision and, therefore, what is the strategy that will lead us to the realisation of that vision? How do we need to behave in order to achieve that vision? You could take a negative example like Enron and its sales organisation,
who had an aggressive sales force and stopped at nothing to get a sale, and that was the culture they built. It served them very well until it all fell over. The strategy and the culture were very much aligned. Negative, but aligned.

You could look at GE, they have a very strong culture of internal development. You could argue the merits of the leaders but it’s had a very consistent culture, irrespective of its leaders, even if they might tweak it a little bit. In fact it’s quite interesting, the leaders might tweak it a little bit – Jack Welch, of course, was very interested in the culture. You might have your own thoughts on Jack Welch as a leader, but he did a lot for the business – he instituted and systematised their internal promotion and talent development programmes which have continued to contribute towards GE’s success.

**NH:** He was very clear about what he wanted the culture of the organisation to be, and things like talent development and recruitment would have been done with an eye to that.

**MG:** Yes, and done explicitly as well. It was very clear that if you were not a successor for the top job they would help find you your way out of the organisation to another good role elsewhere, as we can see with the various GE alumni across the world.

**CK:** Mike, in your experience do you think that HR is typically seen as part of the business at large?

**MG:** It’s a really interesting question because I think it varies so widely. I’ve personally been in organisations where HR is at the right hand of the CEO and others where it’s two or three levels down the pecking order and therefore much less influential. So, I do think it’s impossible to generalise. I like to think in financial services HR is gaining more influence. Not least because of the impact and the increasing influence of the regulator in HR related issues across a number of areas, all of which come up into culture in one way or another.

**CK:** Where HR is much less integrated, and lower down the pecking order, do you feel that that has a negative impact on the culture of an organisation?

**MG:** I think it would be unfair to generalise because some organisations will survive perfectly well due to the nature of their business and the existing culture. Owner-managed businesses, for instance, would be a good example of where the success of the business almost totally depends on the owner-manager and HR is really much more of a classic record keeping and hiring function. Whereas in other businesses it might be quite the opposite and HR would be much more influential.

**NH:** I can make one or two specific comments. The way in which HR is seen by its customers, and by suppliers and by employees, in other words by all the stakeholders – is clearly a function of the calibre of the people who work in that department. You could argue that the calibre of the people who work in that department is itself dependent on the attitude of the Chief Executive and the rest of the board. It is a circular argument here but sometimes it’s possible, whether by accident or design, to break the circle in a good or bad way. A good HR Director can leave and an ineffectual HR Director, who’s a bit introspective or defensive, might take over – or the reverse can happen. When the reverse happens it’s interesting to see the downward trickle of influence that comes from that new HR Director and that’s critical because otherwise you have a team which doesn’t respond, doesn’t take initiatives, is there really just to defend its processes, its procedures, its systems and its controls rather than making a significant contribution to the development of the business.
**MG:** I would say that where an organisation recognises a need for cultural change then the HR function starts to take on a much more important role because by and large, through professional expertise, it is the owner of the means to help the executive team effect that change.

**NH:** In your days as an HR Director, Mike, did you have much to do with the regulator?

**MG:** Very little. The majority of the time that was to do with the hiring of significant influence people and justifying why we were recruiting them - and that, again, is a relatively recent phenomenon. Why we recruited someone and providing the hard evidence both of the background checking, which is the mechanical bit, and the actual recruitment process that followed, the evidential basis on which we made our selections. But other than that, no, it was much more around training and competence, which was really where HR was playing its main role. I actually worked with IMRO in the early days of establishing training competency frameworks, so I had some exposure to the regulators as a practitioner rather than as a member of the organisation.

**CK:** Did you always hire in the company’s image or were people trained in culture.

**MG:** I think organisations, by and large, do tend to recruit in their own image. I think that is inevitable. I've actually done that explicitly at one organisation where we were deliberately creating a new culture in a banking organisation. I introduced a set of recruitment tools that would enable us to understand the values of the people who we recruited and make sure that they were absolutely aligned with our beliefs. And that was very effective, but I think it happens unconsciously elsewhere and sometimes to the detriment of the organisation, because I believe in many cases it does no harm to recruit people who are counter-cultural. Not to the extent that they are disruptive, but to challenge the way things are done and give rise to creativity rather than carry on doing things the way they have always done.

**NH:** That's an extraordinary art isn’t it? If you have a large organisation with an established culture and strong personalities, and you bring in someone with an equally strong personality whose view of how things should be done is different. Getting the best out of that injection of new ideas as opposed to the worst – and a potential clash – is a risky strategy.

**MG:** It is, and I think it really depends whether you have sponsorship at the right level for that individual and what the wider organisational agenda might be for bringing that individual in.

**NH:** Yes, it becomes a question of whether change is actually needed and welcomed. The diagnosis needs to come first.

**MG:** Correct. What do we need here? This needs to change. This needs someone to really shake it up to bring the best out of it.

**NH:** If, on the other hand, you’ve set a strategy, the culture is established, things are roaring away and you need to reinforce the team, then in that situation you bring people in of a like-minded nature.

**MG:** Absolutely right.

**NH:** I think we can summarise certain aspects of the conversation by saying that corporate culture firstly needs to be set and defined, secondly it needs to be communicated, and thirdly it needs to be acted upon. And then there are a thousand subtleties surrounding all of that. In terms of the role of HR, what role does HR play in helping to determine culture in the first place? That will depend on
the variables that we’ve already discussed. How does HR monitor the effectiveness of the way in which those cultural values are inculcated within an organisation? Through induction, through training, through monitoring what’s going on, and working perhaps with internal audit departments, compliance departments and so on. And what role does HR play in tweaking culture in the light of experience – where does the customer come in? Then, of course, there’s the overriding question of regulatory responses and interaction.

CK: And then there is the issue of the articulation of culture, and how and where that should occur.

MG: I’ve always been fairly clear in my views. It’s not one that’s universally held, necessarily but I believe that the articulation of culture absolutely has to come from the top of the organisation. I don’t believe it can sit anywhere else at all and have credibility. If people at the top of the organisation are clear about the culture then life is relatively straightforward. If it’s seen as an HR owned issue it has relatively little impact in my experience.

CK: That makes a lot of sense and it’s touching on what we discussed this morning, where we talked about a strong owner managed culture, which might be like marmite for employees, but was coherent and clear from the top and totally understood by the company at large. Also, and this is slightly separate from culture but a few weeks ago someone gave me a really thought provoking concept when they said to me that everybody thinks that Apple are brilliant at selling to their customers but actually Apple aren’t great at selling, they’re brilliant at asking what their customers want. It is this understanding that filters through every aspect of the organisational culture from the top to the bottom, which is why they are so successful. It goes back to what you’re saying, Mike – it has to come from the top. So if the people at the top understand their business and understand their clients, then they’ve got their finger on the pulse the whole time.

MG: Then, almost by osmosis, the culture mirrors the business strategy and vision. So if we talk about the owner business again – if the owner disappears, if the culture he or she has created is still aligned to the strategy of the business then it will persist. If there is a paradigm shift in the strategy then the culture will need to change to match that.

This is an edited version of the full conversation.

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Halsey Consulting Advisory will launch in early 2015. Nigel will work closely with Mike Gostick and other associates to provide highly tailored solutions to clients who need help with organisational dynamics, training, expertise and guidance relating to top team effectiveness.