



corporate **assessment**

auditing
a company's
personality



adrian furnham & barrie gunter



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*For
Alison and Jill
respectively, respectfully, respectworthingly*

Preface

A number of factors led us to write this book. They arose from the two quite distinct worlds in which we live: the academic world and the consulting world. As academic occupational psychologists we have been surprised, intrigued and interested by recent developments in management science and organizational behaviour. We have noticed the enthusiasm with which students of organizational behaviour have embraced the concept of corporate culture, and the various attempts to distinguish between it and another concept, namely corporate climate. Our own work with many varied organizations and management consultants has led us as academics, to explore ways in which these two complex concepts can be operationally defined and distinguished, and then in turn, how organizations can obtain maximal benefits through self-assessment in terms of either culture or climate audits, or both.

The academic world is certainly as faddish and fashion-conscious as the business world. In the 1950s a scientific approach to management was regarded as the key to management success; in the 1960s the emphasis shifted to how the organization was structured; the 1970s promised success if corporate strategy was well thought out and researched; throughout the 1980s, the focus moved yet again to the 'softer' feature of corporate culture. Each change of fashion has brought a fresh wave of theory-building and empirical research, and is to be welcomed because of this.

Within the 1980s business world, the fashion for mergers and acquisitions meant for the many participating organizations a difficult process of 'marrying' a very different corporate 'personality' from their own. The transition from the old to the new did not invariably follow a smooth passage. One way to predict, and thus to be in a better position to prevent, certain difficulties arising in these new partnerships, is to understand as fully as possible how each organization in the process works. That involves not only understanding the products or services of the mergees (whatever they may be), but also the process whereby they are provided. Through design, accident, and historical precedent, organizations develop norms of behaviour, belief systems and espouse certain values that may, or may not, be adaptive. For both the researcher and the practitioner to understand

how these processes work, so that ways might be found of changing or maintaining such crucial organizational features, it is necessary to describe and understand the process. One way of shedding light on this matter is by conducting corporate audits, and that is the topic of this book. The theory and methodology of corporate audits (or whatever synonym they are called by: e.g. employee surveys) is attracting more attention among academics, consultants and professional managers.

The second reason for our writing this book has been due to our experience as organizational consultants. On a number of occasions we have advised clients on how to do corporate audits, where it seemed to us an audit was necessary. Some managers had started by wanting to carry out extensive personality or skills testing which seemed irrelevant to their stated concerns. Others assumed they already knew all about the culture and climate in different parts of their organization, and wanted advice on how to implement change systems. In each of these instances, it seemed useful to point out the advantages of the corporate audit.

We have also had organizations approach us whose express interest was in doing an audit of one sort or another. Many did not know how to go about it; others were not sure which type of audit to choose. We have helped organizations to develop their own audit instruments and techniques; to choose between published audits, selecting the one that is both psychometrically sound and best suited to their needs; and we have adapted our own instruments to provide an audit for clients. We have also developed a National Organizational Audit (NOA), whereby every year numerous organizations are invited to take part in a climate audit. We have created a robust, sensitive, employee climate survey which measures their attitudes and perceptions on fourteen different facets of organizational climate. Organizations that join NOA and who use this audit with a sample of their work-force, not only get a full feedback report on their organizational climate, but also receive an overview of other organizations taking part. Such comparative data can provide extremely interesting and informative benchmarks, allowing managers to consider the profile of their own organization against a normative profile for organizations in the same sector.

This practical consultancy experience, especially that involved with the NOA, has taught us some important lessons. There is nothing as practical as good theory, and nothing as theoretically useful as putting ideas into practice. This book is an attempt to put some of this experience down on paper.

We have both our clients and colleagues to thank for challenging ideas. David Pendleton of Kaisen Consulting helped us to be more sensitive to current issues in the business world, and Liam Forde of Corporate Assessment proved to be the spur that led us to take our early ideas further. Nigel Oakes at Behavioural Dynamics has challenged us to conceive the potential of corporate audits in the widest sphere of business

applications, far beyond the range of corporate problem-solving to which they are normally applied. Lee Drew has, as usual, transformed various scrappy pieces of paper, badly processed floppy discs, and near illegible comments on various drafts into a beautiful processed manuscript with speed, efficiency, charm and biscuits.

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1 Management audits

INTRODUCTION

This book is concerned with the practice and, where it exists, the theory of auditing employees' perceptions of their organization's culture, climate, communications and customers. Most organizations have a plethora of 'statistics' of differing kinds by which they measure operational performance and provide prospective and retrospective data and on the basis of which they hope to make rational business decisions. The quality of organizational planning and decision-making is therefore partly a function of this information.

It has often been said that a company's most valuable asset is its employees. Audits, such as those described in this book represent procedures designed to find out what an organization's employees think, how they behave, and what they value.

Many organizations carry out audits on various aspects of their functioning and performance. Here are some examples:

The total company Getting indices like return on investment, sales revenue by product group, profit as a percentage of production/marketing/distribution costs, market share, debtor-to-sales ratio, asset utilization, and so on.

Production trends Doing audits of departmental production costs, material conversion rates for major product groups, direct labour costs per department, by skill, and machine utilization.

Sales and marketing trends Doing separate audits on such things as the market share of various product groups, competitive position, and market segmentation.

Administrative audits On monitoring costs, and efficiency in terms of the ratio of administrative staff to production workers.

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Research and development audits On issues like profit gained, direct contribution to profit or rate of product growth or decline in the company of amount of innovation and development.

Relationships between resources and results Where resources are capital investment, administration, marketing and product costs, and results are profit or production and sales revenue.

The audits just listed tend to comprise hard financial, marketing, or production data. They are used by companies to provide a systematic and objective account of their internal functional efficiency and their external business effectiveness. These, however, are not the kinds of corporate audit we will be discussing in this book. Our primary concern will be with audits which use softer currencies, namely the perceptions, values and self-reported behaviours of employees. Such audits attempt to be just as systematic as their 'harder' counterparts, but are based on what are essentially subjective data. The nature of the issues addressed by this second family of audits – monitoring, measuring, and defining corporate culture and climate and closely associated communications and customer care systems – is often more qualitative than quantitative, although we will describe research techniques which can yield valuable corporate data in a quantifiable form. Indeed they can be treated as 'hard data'.

The corporate audits we will discuss provide a means of gathering perceptual data about organizations. They are 'democratic', in that they 'poll' either the entire work-force, or a respectable and representative sample of it. They can provide information such that management may begin to realize they have a problem before it reaches epidemic or unmanageable proportions. It is important to stress, even this early in our exposition, that auditing corporate culture or climate is not without its potential drawbacks. The mere fact of a survey will not in itself resolve an organization's problems. Indeed, mismanaged, a survey can cause problems all of its own, or serve only to exacerbate those which already exist. Sometimes, organizations may set up barriers to doing an audit for fear of how it may backfire on them. These barriers to adopting audits take many forms, and may not always be clearly and openly articulated. The most frequent objections are:

- 'Audits have insufficient benefit, in that they are time-consuming.'
- 'I know my people; the grapevine keeps me pretty well and accurately informed. Hence audits are unnecessary.'
- 'There are much better and simpler alternatives, like MBWA (management by walking about) and I hear the reactions of the company then.'
- 'They are simply too expensive.'
- 'This organization [or department] is too small to warrant a full audit.'

- 'Publishing of the results would probably mean a serious loss of (informational) power on the part of management.'

It is true that the act of surveying can influence attitudes. This is more frequently the case if organizations use them only rarely. Employee audits are often provoked by fashion, but some organizations have been doing them annually for twenty years or so, and use audits to calculate various indices that are very important in their strategic planning. Such audits can provide companies with important benchmarks about how they are doing over time. Some more adventurous companies use audits to measure or benchmark themselves against other close corporate performers. There are, in fact, various groupings of companies who share employee survey data from responses to questions they all agree to carry in their surveys. By doing so they obtain valuable comparative data which is most helpful in interpreting the causes of their specific results.

THE ROLE OF THE PERSONNEL FUNCTION

Pendleton and Furnham (1992) believe that the judicious use of human resource and organizational behaviour audits could substantially enhance the power, prestige and professionalism of personnel directors. They asked, 'Why do very few chief executives come from personnel backgrounds?' For most service companies and many in other sectors, the salary bill is the single largest revenue expense, yet those whose principal function is advising on human resource management rarely make it to the top.

One clue is to be found in their history. The background of the personnel specialist usually derives from one of these main areas: administration, welfare and industrial relations. Each of these functions is changing. Administration is becoming increasingly computerized requiring less specialized knowledge of procedures but more knowledge of systems; 'Welfare' is seen as anachronistic, though its function remains important, even in those companies in which the synonym 'counselling' is also avoided. Industrial relations, in much of the industrial world, is tending to operate in a greater spirit of co-operation. This is especially true in Europe and America, where many managers seem to have understood that entire industries could die unless conflict is replaced by collaboration, in increasingly competitive markets. Thus, many traditional personnel functions are becoming redundant or have changed completely.

Other reasons for personnel's apparent decline are more often self-inflicted:

Personal attributes Many current personnel specialists are gentle, 'caring' characters who are asked to help with damage limitation when tough decisions have had to be taken. They are widely consulted on how to implement redundancy programmes in a sensitive way, but are frequently unsuited to taking the tough decisions themselves.

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Reactivity Coming from an administrative background, other personnel specialists have a detailed and reactive approach to work, and find it difficult to make a contribution to the creation of future strategy, even when the creative use of human resources may make the most enormous difference to a company's competitive strength. They are neither used to nor trained in strategic planning, nor frequently in any sort of collection and analysis of data. If the language of business is money, the alphabet must be numbers. Some personnel departments, of course, collect extensive data (which they analyse) on absenteeism, performance appraisal and payrolls, but less on attitudes, behaviours and values.

Information Unlike their colleagues in operations, research and development or finance, they frequently lack important sources of management information which will guide senior managers' decision-making. The operations director brings information about throughput, delivery times and distribution. The finance director will bring management accounts and details of unit costs; the sales director will have data about revenue; the marketing director will be able to detect trends in the market place to which the company needs to respond. Yet the personnel director very often brings little more than an intuitive feel for morale or misleading data drawn from exit interviews about why people leave the company (when what they really need is clues about why they stay). The personnel departments which have carefully thought through the information their senior colleagues need in order to guide their decision-making are disconcertingly few. A properly designed and executed organizational audit (e.g. exploring the climate or communications in a company) could provide just the information required.

Invisibility It is all too frequently difficult or impossible to detect the effect of the personnel department. If the sales department fails, the revenue goes down. Most other departments' effects are readily discernible and their impact is immediate. However, if their administrative duties were to continue, it would be hard to detect much of an impact of the closure of many personnel departments. This does not mean that the company would not be harmed, but that the effect might be attributed to other factors, such as a downturn in the market or an insensitive decision taken by senior management. If a benchmark audit is conducted concerning employees prior to the introduction of a change programme, with a follow-up audit to quantify the effects of that programme, all under the charge of personnel, then a significant organizational role for the personnel department more readily emerges.

Pendleton and Furnham (1992) have argued that, by acting as an internal consultant, personnel managers can perform their function more efficiently. The former has many case studies which demonstrate the efficacy

of this position. Thus, corporate audits can be seen as crucial instruments in helping professional human resource people with three problems they frequently face:

- 1 **Development** As markets change, organizations need to change. Helping to develop the organization and its work-force requires a great deal of skill and insight which it would be legitimate for many line managers to seek in the personnel function. Personnel specialists should be at the forefront of planning, monitoring and implementing much-needed change. Audits (before and after change) help monitor the efficacy of organizational change programmes and can suggest which facets of the organization need most attention, when and how.
- 2 **Tracking** With most major business decisions there are consequences for employees. But what mechanisms currently exist to keep senior managers in touch with the thoughts and feelings of others in the organization? Those who advocate management by walking about (MBWA) imply that managers will automatically discern that which is important. But this does not take into account the difficulties of tracking the mood of a large and complex organization. Devising sensible tracking systems, i.e. regular audits, to challenge the monopoly of the more numerate disciplines, is an important need.
- 3 **Strategy** The need to use human resources creatively and to come up with increasingly compelling reward schemes which do not contribute to salary inflation, is ever present. Organizations need performance-related strategies which are logical, coherent, future-orientated and integrated both with other departments' plans and the overall business plan. Strategy, however, has to be information-based, and it is the corporate audit which can supply this information.

Corporate human resources audits are seductive; they often sell themselves. It is not hard to believe in them. There is a persuasive logic in attempting to acquire real, accurate, representative feedback upon which to make decisions. Indeed, the results of audits frequently give impetus to strategic planning (Sayle, 1988). This faith is well-founded if the audits are properly designed and analysed. The argument that they are expensive is relatively easily and justly counteracted by the proposal that ignorance is even more expensive.

There has been a significant growth in corporate human resources audits over the past decade or so (Walley, 1974). This has come about for two reasons:

- 1 **Demand** Line managers, corporate planners and chief executives have quite rightly demanded to know what the culture, climate, and communications are like in their organization (or part of it) before engaging on some plan of action. There is a growing realization that it is only the naive or foolish who presume to know, or who don't care.