Keeping a Pulse on Culture

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Agenda

Our Roadmap Today

- Why is culture important?
- Where do you start?
- How do you assess corporate culture?
- Are there additional ways to measure culture?
- Is culture here to stay?
Culture and Strategy

“Culture eats strategy for breakfast.” – Peter Drucker
“Culture, more than rule books, determines how an organization behaves.” – Warren Buffet, Memorandum from Warren Buffet to Berkshire Hathaway Managers (July 26, 2010)
Poll Question #1

Is “auditing corporate culture” a hot topic in your organization?

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Why is Culture Important?
Culture is in the Headlines

Oliver Schmidt Jailed For Seven Years For Volkswagen Emissions Scam

5,300 Wells Fargo Employees Fired Over 2 Million Phony Accounts

What Uber's Company Culture Crisis Taught Us About Leadership And Management

Michigan State President resigns over Nassar scandal

Entire USA Gymnastics board resigns in wake of Larry Nassar scandal
Boards are not Familiar with the Tone in the Middle

#4 – “The Board’s understanding of corporate culture doesn’t extend beyond the tone at the top, creating a risky disconnect.”

Source: 2017-18 NACD Public Company Governance Survey
Culture is on the Audit Committee Agenda

#3 – “Pay attention to conduct at the top, and consider whether the tone in the middle is consistent with the tone at the top.”

Source: Setting the 2018 Audit Committee Agenda
C-Level Executives Rank Culture as a Top Risk

#9 – “Our organization’s culture may not sufficiently encourage the timely identification and escalation of risk issues that have the potential to significantly affect our core operations and achievement of strategic objectives.”

Source: Executive Perspectives on Top Risks for 2019
Digitalization is Transforming Corporate Cultures

Over the next few years, many organizations will need to undertake radical change programs and, in some cases, completely reinvent themselves to remain relevant and competitive...all because of digital revolution.

- **Customer Engagement**: Exploring new ways to build strong relationships with customers
- **Digitizing Products & Services**: Launching new, enhanced products, and exploring new business models
- **Better Informed Decisions**: Enhancing information available to enable timely and effective data driven decision making
- **Operational Performance**: Creatively using technology to improve performance
Poor organizational culture has been identified as one of the root causes of recent corporate scandals.

How organizations, and individuals within them, behave has become a matter of public concern.

Boards realize there is an increasing need to focus on the risks that culture presents.
Poll Question #2

Does your current audit plan incorporate any audits of corporate culture?

A  Yes
B  No
C  Unsure
**Poll Question #3**

Do you assess culture as a part of existing audits or as a stand-alone audit?

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<td>A</td>
<td>Stand-alone audit</td>
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<td>B</td>
<td>Integrated into existing audits</td>
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<td>C</td>
<td>We don’t assess culture as part of our audits</td>
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Where Do You Start?
A strong culture is the “keystone” to the organization. The culture of an organization is the mix of shared values, attitudes and patterns of behavior that give the organization its particular character.
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<th>Example Red Flags</th>
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<td>1. Nobody talks about culture</td>
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<td>2. Controversial pay deals that encourage risk-taking to hit short-term targets</td>
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<td>3. Complex and unclear legal and reporting structures</td>
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<td>4. Poorly executed takeovers that allow “pockets” of bad behavior thriving beyond the control of the board</td>
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<td>5. Lack of financial discipline</td>
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<td>6. Employees are constantly on edge about the fear of being fired</td>
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<td>7. Employees execute projects without a clear vision or direction from company leaders</td>
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<td>8. Lack of knowledge sharing among employees</td>
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<td>9. Focusing on “blame” or “covering for each other” rather than fixing the problem</td>
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<td>10. Risk is a four letter word</td>
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Integrated Success Factors for Assessing Corporate Culture

**Risk Oversight**
- Strengthen risk management
- Understand critical risks/assumptions
- Understand risk appetite
- Ensure satisfaction with risk information
- Be alert for dysfunctional behavior
- Provide timely input

**Audit Involvement**
- Alignment with executive management
- Evaluate root cause trends
- Understand the broader context
- Think beyond financial risks
- Know the organization’s business
- Second-line of defense coordination

**Risk Culture and Corporate Culture**
- Executive management sets the tone
- Accountability and clear expectations
- Decisions consider risk and solvency
- Quality of board risk decisions
- Incentives that encourage risk awareness
- Collaboration and open environment
How Do You Assess Corporate Culture?
Poll Question #4

Is your internal audit department prepared to conduct an audit of corporate culture?

A. Yes
B. No
C. Unsure
What is a Culture Audit?

Culture represents what you have and prevents you from achieving what you want.

A “culture audit” helps determine the culture that currently exists within a company.

Culture audits also highlight potential barriers to risk practices and communication throughout the organization.
Enablers for Auditing Culture

- Strong risk maturity in the organization
- Confidential employee surveys
- Position, treatment and regard for internal audit
- A relationship of trust between the audit committee chair and CAE that allows informal discussion about subjective judgements (gut feel) on culture
- Appetite and support from the top of the organization
- Organizational culture needs to be analyzed, properly defined and disseminated by the board/senior management
- Internal audit being given a clear mandate
- Writing the mandate into the audit charter
Challenges to Auditing Corporate Culture

1. Less tangible than auditing processes
2. Planning how to conduct the reviews
3. Executive support
4. Changing the normal audit approach
5. Dealing with the “human element”
6. Can be seen as a personnel assessment more so than a typical control assessment
7. Auditors must get comfortable with making judgments on intangibles
Culture Assessment Framework

Culture Elements

**Tone at the Top:** Engagement of board, embedding culture attributes into the fabric of the organization, strategic planning processes, and clarity of purpose and consideration of risk in decision making.

**Communication Practices:** Frequency and level of communication top-down and bottom-up, culture of learning from the past, and effective challenges.

**Policies and Procedures:** Code of conduct, whistleblower hotline, and effectiveness of policies and procedures.

**Governance Framework and Risk Orientation:** Risk appetite, roles and responsibilities, and tools and technology.

**Accountability:** Ownership, risk related goals and tolerances, and committee charters.

**Risk Transparency:** Escalation processes, “speak up” culture, and risk reporting.

**Incentives and Rewards:** Alignment of incentives with risk management, balancing rewards with consequences of failures.

**Employee Life Cycle Management:** Hiring practices, career pathing, development plans, exit process, and feedback loops.

**Training and Competence:** Board and employee training relative to risk, talent review, succession planning, and lessons learned communications.
Are there Additional Ways to Measure Culture?
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Connecting the Dots and Looking for Data Trends

- Employee Turnover
- Hotline Calls
- Disagreements with Management
- Unimplemented Internal Audit and External Audit Recommendations
- Reported Instances of Fraud
- Unexplained Management Departures
- Overall Company Turnover and Retention
- Employee Satisfaction Results in the Ethics and Integrity Area
- Unreasonable Budget Expectations
- Increased Pressures on Management to Perform
- Recognition, Reward and Incentive Programs
- Data from Talent Management System
A good culture survey focuses on eight pillars of culture. If you triangulate this information with your sister control functions, a strong picture of your organization will appear.

1. Awareness of Program and Resources
2. Perceptions of the Function
3. Observing and Reporting Misconduct
4. Pressure
5. Organizational Justice
6. Manage Perceptions
7. Perceptions of Leadership
8. Perceptions of Peers and Environment

Source: Ethisphere’s Ethical Cultures and Perceptions Assessment
Measuring Culture Through the Eight Pillars

1. **Awareness of Programs and Resources**
   - Measures employees’ reported level of familiarity with the assets and efforts of the compliance and ethics function.

2. **Perceptions of the Function**
   - Measures how employees perceive the quality and effectiveness of the ethics function’s efforts in providing communications, training and support.

3. **Observing and Reporting Misconduct**
   - Evaluates employees’ level of comfort in reporting perceived misconduct, the reasons for doing so, potential reporting barriers and the preferred method of reporting.

4. **Pressure**
   - Measures the extent and source of pressure employees may be experiencing to compromise standards in order to achieve business goals.

Source: Ethisphere’s Ethical Cultures and Perceptions Assessment
Measuring Culture Through the Eight Pillars

5. Organizational Justice
Assesses employees’ perceptions of whether the company holds wrongdoers accountable and the awareness of disciplinary actions taken.

6. Manager Perceptions
Gauges employees’ perceptions of their supervisor’s conduct, communication effectiveness and comfort in approaching with concerns.

7. Perceptions of Leadership
Also known as “tone at the top,” this category evaluates employees’ perceptions of the conduct, values and communications of senior leaders.

8. Perceptions of Peers and Environment
This measures how employees perceive the ethical priorities of their coworkers, the values of their organization and willingness to share opinions.

Source: Ethisphere’s Ethical Cultures and Perceptions Assessment
Pillars Earning the Highest and Lowest Employee Perception Scores

- **Awareness of the Program and Resources**: 92% (High), 70% (Low)
- **Perceptions of Peers and Environment**: 89% (High), 71% (Low)
- **Perceptions of the Function**: 87% (High), 74% (Low)
- **Manager Perceptions**: 87% (High), 84% (Low)

Source: Ethisphere’s Ethical Cultures and Perceptions Assessment
Nearly One-Quarter of All Employees Experience Some Degree of Pressure

Percentage of Overall Respondents

Do you experience pressure to compromise the code, the law, or company policy?

- 77% “Never”
- 23% Occasionally, Frequently, Rarely, or Declined to Answer

Percentage of Respondents Experiencing Some Degree of Pressure

What type of pressure do you feel?

- 35% “Weak”
- 65% Moderate, Strong or Declined to Answer

Source: Ethisphere’s Ethical Cultures and Perceptions Assessment
Is Culture Here to Stay?
This is your Future – “The Four C’s”

- Culture
- Competitive
- Compliance
- Cyber
Understand your Organization’s Perspective

Have there been any discussions with the audit committee and executive management relative to assessing risk culture of the organization?

Do you assess risk culture as a part of existing audits or as a stand alone audit?

Has your organization defined controls across the first and second line of defense in regards to managing conduct risk, including policies and procedures, board and senior management oversight, compliance monitoring, training, and escalation processes?
Know How Leaders Reinforce Culture

01 Opening the lines of **communication** and ongoing dialogue

02 Being **accessible** in big and small ways

03 Providing **clarity**, conveying desired outcomes

04 Pushing down **information and decisions**

05 Showing **appreciation** through rewards and recognition

06 Building **trust**, allowing recovery

07 Investing in **people**
Thank You!

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