



The culture conundrum

The phrase *good organisational culture* is frequently used; people nod sagely and there is a broad assumption that everyone knows what is meant by it. This briefing paper provides chief audit executives (CAE) with insight and theory on organisational culture; the detail that sits between the lines of many articles and conversations on the subject.

Why is this important for CAEs? Because organisational culture is like DNA; it runs through everything from conversations, ways of working, social events to decision making, recruitment and policies. Trying to deliver internal audit services without an appreciation of the organisations culture is like a doctor trying to cure a symptom without knowing the patient. Is this why some CAEs toil and strain whilst others thrive?

What is organisational culture?

Culture is ever-present; whether acknowledged or not, it exists in all organisations regardless of size, sector, performance or age. It is the essence that runs through everything; a powerful, invisible force that impacts the behaviours and thoughts of people at all levels of the organisation. It is the sum of the beliefs and values set by those in positions of power or influence yet maintained by every individual, every new recruit and every interaction.

Over the years there have been a myriad of headlines regarding corporate failings that are rooted in culture; Presidents Club sexism, Volkswagen emissions, Enron collapse, Oxfam prostitutes, Metropolitan Police racism, BBC gender pay gap, Amazon tax payments, Barings Bank performance rewards, Payment Protection Insurance (PPI) sales, BP oil disaster. Organisational culture has a symbiotic relationship with governance, internal control and risk management.

Can internal audit provide complete assurance without an appreciation of culture?

It can be the difference between a board paying lip-service to governance or understanding its value. For auditors it can be the reason for an audit finding to be disputed regardless of the facts, the seemingly irrational rejection of a proposed action or the refusal to support an audit engagement.

Each organisation is a unique eco-system and culture is organic; evolving with or without the conscious effort of its leadership team. It can be both positive and disruptive.

The Financial Conduct Authority published a [discussion paper](#) on board culture in 2018, part of continued efforts to change systemic cultural issues that were instrumental in the financial crisis.

In his book *The Culture Cycle*, Heskett found that 20-30% of the differential in corporate performance between competitors could be attributed to positive cultural factors. He states that whilst many consider culture to be a soft concept it is actually a critical element of organisational success. And therefore, critical for internal auditors.

This is also supported by the Reputation Institute; their **seven dimensions framework** that includes cultural elements; workplace, governance, leadership, citizenship. Reputation is inextricably linked to culture and they have developed data analysis against which to model performance. Auditors should consider using a variety of tools in the quest to understand and provide assurance over corporate culture.

Bitesize theory for auditors

According to **Schein** there are three levels of culture; like an iceberg only a small part is visible with the most significant and powerful levels hidden beneath the surface. Auditors able to identify, evaluate and learn from cultural indicators below the line will be in a good position to influence, provide advice and add value.

Audits often include 'cultural' findings such as policies not being followed or control weaknesses in the vetting of joiners. Consider recently agreed audit actions, which level have they targeted; the observed/symptomatic behaviour or the theories/**root cause**?

The phrase "the way we do things around here" was coined by Charles Handy to describe organisational culture. Its variants 'because we do' and 'we've always done it that way' are the nemesis of constructive internal audit discussions – all the more reason why it's vital for auditors to have an understanding of the topic.

Four types of culture were defined by Handy, a leading authority on the subject;

- **Power** cultures have few rules and polices as decisions are controlled by a few individuals, quick decisions; Sports Direct-Mike Ashley, RBS-Fred Goodwin, GE-Jack Welch.
- **Role** cultures are bureaucratic based on rules and roles, hierarchical, long chains of command, slow decisions; government, large banks, public sector, retail chains/supermarkets.
- **Task** cultures focus on the outcome, teamwork, achieving the common purpose, work in projects or matrix style, agile ways of working; Tesla, London 2012 Olympics, Cisco, Red Bull Racing, Metro Bank.
- **Person** cultures exist in small consultancies, professional practices, where individuals are the focus of power and talent, organisation exists to look after the needs of the individual. For example, a group of solicitors or journalists forming a collective to share office space and administrative support. It is unlikely that such organisations would have an internal audit function due to their size.

What cultural type is your organisation? Also consider the culture of strategic partners or key suppliers/clients. All of the typologies can lead to success or failure depending on how they are deployed, in some power cultures governance mechanisms may be shunned by an autocrat (**Mike Ashley**), others develop their own such as Mark Zuckerberg, **Facebook**.

There are many **models** which describe organisational culture including the McKinsey 7S model and the cultural web. A good team exercise for internal audit is to take one of the models and brainstorm the elements to encourage awareness, debate and build confidence in auditing aspects of culture.

It is also possible, without expenditure for the audit team to evaluate the organisation using a free online assessment tool, such as the **Organisational Culture Assessment Instrument**, with a little budget this could be extended across the organisation. Research has shown that organisations have competing values across two axis, gravitating towards one end of either spectrum resulting in a cultural type; clan, adhocracy, hierarchy or market.

Each typology has particular value drivers and leadership qualities such as which link to risk management approaches and propensity for compliance. The model also suggests preferred effectiveness theories and quality improvement strategies that could be insightful for internal audit to understand when delivering findings.

Key traits of a good culture

The pay bill is a significant financial commitment for an organisation; investing in this important asset is key to a good culture. It is about more than a few employee perks or an incremental pay rise, these only provide short term motivation; cultural stimulus is ongoing.

- a **vision** or mission statement, a common purpose that unites everyone. Simple, effective and compelling - Ikea's is '*to create a better everyday life for the many people*', Facebook '*to give people the power to share and make the world more open and connected*' and Age UK '*enabling older people to improve their lifestyle*'
- a set of **values** that tell people what behaviours are expected, esteemed and essential. Words like passion, delivery, simplify, integrity, phrases such as *innovate through experimentation* (Twitter), *results first-substance over flash* (Rackspace) and *collaboration-leverage collective genius* (Coca-Cola)
- **actions** speak louder than words; a good culture brings its values to life by embedding them in the day to day working of the organisation
- **recruitment** of people that understand what the organisation is about, is as vital as their competences. In their book *Built to Last*, Collins and Porras noted that whilst there was no consistency in the values of companies with enduring success, they all hired based on cultural fit. Thinking about the audit team, technical skills can be acquired via training but mind set and values are inherent – is this the start point of your recruitment campaigns?
- **storytelling** brings the culture to life, describing histories, events and rationales for values and purpose in a meaningful, practical, inspirational way. Anecdotes make personal connections
- the **environment/location** that organisations chose is important. Open plan, hot desking and large atrium spaces encourages collaboration, Silicon Roundabout/Tech City attracts digital companies in London, brightly coloured innovation rooms for brainstorming, relaxation rooms for mindfulness, offices in the middle of floors leaving windows for staff not directors – whether aesthetic or geographic symbolic of the culture.

In 1961, Kennedy announced to Americans that, "this nation should commit itself to achieving a goal, before this decade is out, of landing a man on the moon and returning him safely to Earth." In 1969 Neil Armstrong took that 'giant leap' and when Kennedy asked a cleaner at NASA what he was doing he replied, "I am helping to put a man on the moon". Culture starts at the very top and cascades down through the organisation.

Remember the game Chinese Whispers you played as a child; remember how the message cascaded? If your team is large enough share a message at the start of a meeting or beginning of the day, whispered quietly into a colleague's ear and ask them to share it with one person who hasn't heard it over the course of the meeting or day. See what the message is when it is received by the last colleague after the distractions of the meeting/day. The culture cascaded by the board goes through the same communication challenges across multiple tiers - when it reaches the cleaner or the receptionist is it the same message or an

amended version of the culture?

Warning signs

Audit can add value through the identification of indicators that a culture is detrimental, hindering or at worse sabotaging an organisations strategic aims. Simply looking out for signs day to day and taking the time to get to the root cause; ongoing vigilance, protecting the organisation at its heart, taking preventative measures to avert a crisis. A **report** by leading governance and ethics institutions examined the potential red flags for a corporate scandal based on past events.

Overt detrimental behaviour is relatively straightforward to spot but what about the hidden cues;

Is the organisation stressed?

Short-termism taking over, rushed decisions, knee-jerk reactions, deferred governance/audits

Is talking about culture avoided at an executive level?

Passive management, poor awareness, lack of acknowledgement of value

Do people wait for the most senior person in a meeting to offer an opinion first?

Be wary of group think, corridor conversations, false agreement

What stops them? fear, lack of confidence/empowerment/competence

Are people ridiculed or admonished for making mistakes? Blame culture

Impact on innovation, creative thinking, developing new ways of working, talent retention

Have inappropriate reward/incentive schemes been approved?

Encourage pushy sales, unethical behaviour, fraud, short-term gain, distrust

Is employee turnover high in particular functions or overall?

Learnings from exit interviews, comparable to sector/geography, productivity impact

Do few employees recommend others to join? Unsuccessful referral scheme.

Why not an employer of choice? Employee survey/interviews insights; why is it not a good place to work?

Is performance too good to be true? Projects always successful, rapid promotions, perfect scores

Manipulated targets/outputs, corners cut, misleading internal and external stakeholders

How do new joiners feel after their first week? Corporate induction or left to chance?

Which stories did they hear? What/who made the biggest impact and why? Will they stay? Was the reality the same as expected from the interview/contract promises-what was different?

Tolerance of individuals who breach policy/controls or commit fraud

Why dealt with quietly or dismissed as atypical behaviour rather than used as deterrent/learnt from?

High absenteeism, long comfort breaks, poor productivity rather than going the extra mile

Project overruns, reluctance for overtime, quality issues, inefficiencies, compliance issues?

Lack of commitment, staff don't see the purpose of the organisation, poor examples set by leaders

Underused employee concern/whistleblowing/speak-up process

What type of concerns? How managed? Where reported? Is it fair and impartial? Are people protected?

People turn up to meetings unprepared, late and fail to actively participate

Lack of respect for others, bureaucracy, procrastination, decision avoidance

Insufficient budget to invest in people, to maintain and develop skills

Is talent recruited rather than promoted? Does resourcing strategy match business need?

Whilst culture predominantly emanates from the top, accountability for maintaining or changing it rests with all stakeholders, not just the board. Internal audit has a responsibility to report when cultural issues are observed that impact on governance, internal controls and risk management – regardless of the scope of the engagement. Like the British Transport Police campaign “see it, say it, sorted”. Auditors should be alert to cultural cues at all times and make it an integral part of everything that they do.

Auditing culture

Internal auditors have a natural curiosity, a healthy scepticism that is ideally suited for looking beneath the surface of the organisation and into its culture. It is important to be mindful of unconscious bias, internal auditors are employees too; amplifying the professional sensitivity for objective and independent thought can help to mitigate this together with enhanced quality safeguards. CAEs should explore the culture of the audit team itself, how might this influence auditing culture? Does it mirror the organisation or set itself apart?

There are various ways in which **assurance** can be provided; a dedicated culture audit, specific elements or ongoing integration into the broader audit plan. **Guidance** is also available for structuring different engagements.

It is natural for CAEs to challenge themselves before adding culture to the audit plan; the institute's **report on culture** includes case studies and is a good reference point to start exploring the options. Is the team competent enough, are stakeholders open to it, how will the board respond, what will reporting look like? It is prudent to have open dialogue with the audit committee chair and key directors before embarking on a dedicated audit of culture. Thinking through the exit strategy for the engagement alongside the scope can be beneficial and help manage the perceived risks. Perhaps working with HR colleagues on this, a guest auditor with psychology background or experience in culture could be beneficial.

As the saying goes, ‘Rome wasn't built in a day’, likewise comprehensive assurance over the organisations culture is not going to be provided overnight. Looking at the existing audit plan through the culture lens will undoubtedly reveal a host of opportunities for integrating culture into scheduled engagements in addition to considering targeted activity or an audit just of culture.

Using a variety of assurance insights, across all audits, attending meetings, sitting on project groups, attendance at committees etc. the CAE will have sufficient evidence to provide an opinion at each audit committee regarding the organisations culture and its impact on the achievement of goals and objectives.

Remedial activity for adverse cultural findings cannot be imposed as an audit recommendation; solutions

must be **developed and fully engaged with** by those with accountability for their delivery. The multifaceted nature of culture is what makes it challenging to change. It is a powerful protective mechanism much like the body's immune system; attempts to alter one aspect can be regarded as an infection which is rebuffed even when it is a positive action. Restructuring DNA is not an easy feat.

Closing thoughts

The discovery of DNA and its ongoing understanding has led to countless medical breakthroughs to identify the root cause of diseases and develop treatments; it has also heralded debate about the ethics of 'cures' for conditions that some consider abnormal and others just part of human character. The same is true of organisational culture. Having knowledge and intellect is meaningless unless something positive is achieved. Why would culture not form part of the audit plan?

"There is nothing as deceptive as an obvious fact."

- Arthur Conan Doyle