Oversight of Corporate Culture:

A Core Asset in Driving Performance and Deterring Fraud

Wednesday, December 13, 2017

The views expressed by the presenters do not necessarily represent the views, positions, or opinions of the Center for Audit Quality (CAQ), Financial Executives International (FEI), The Institute of Internal Auditors (IIA), the National Association of Corporate Directors (NACD), or the presenters' respective organizations. These materials, and the oral presentation accompanying them, are for educational purposes only and do not constitute accounting or legal advice or create an accountant-client or attorney-client relationship.

CPE Credits

This program qualifies for 1.8 CPE credits.

Field of Study: Behavioral Ethics

NACD Skill-Specific Credit

This session offers 1.0 NACD skill-specific credit.

Contact Ronnell Perry if you have any questions (Fellowships@NACDonline.org).

Goals of Today's Program

- Explore how organizations define culture and leverage it as a corporate asset

- Discuss how members of the financial reporting supply chain effectively discharge their oversight responsibilities

- Highlight leading practices used to assess and strengthen an organization's culture

Panelists

Mark Carawan
Chief Compliance Officer
Citigroup

Brenda Gaines
Audit Committee Chair
Tenet Healthcare Corp.

Gilly Lord
Partner
PwC UK

Paul Walker
Schiro/Zurich Chair in ERM
St. John's University

Moderator

Cindy Fornelli
Executive Director
Center for Audit Quality

Defining Culture

- A series of assumptions individuals make about an organization

- No one-size-fits-all – culture is company-specific

- An internal alignment of company purpose, values, strategy, and business model

- Defining desired culture – addressed in Principle 3 of the COSO 2017 ERM Framework

Components of an Organization's Culture
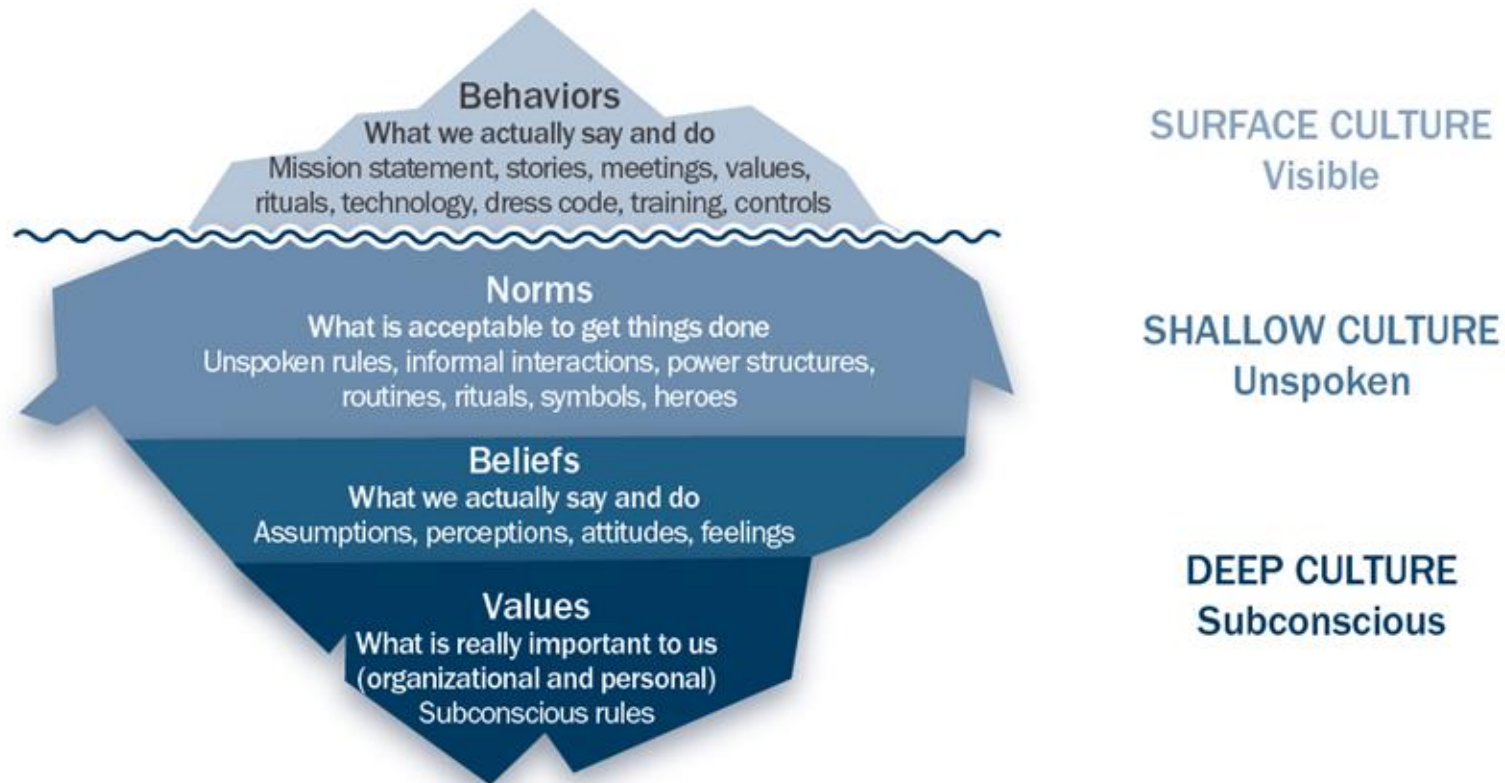
Source: *NACD Blue Ribbon Commission on Culture as a Corporate Asset (2017)*
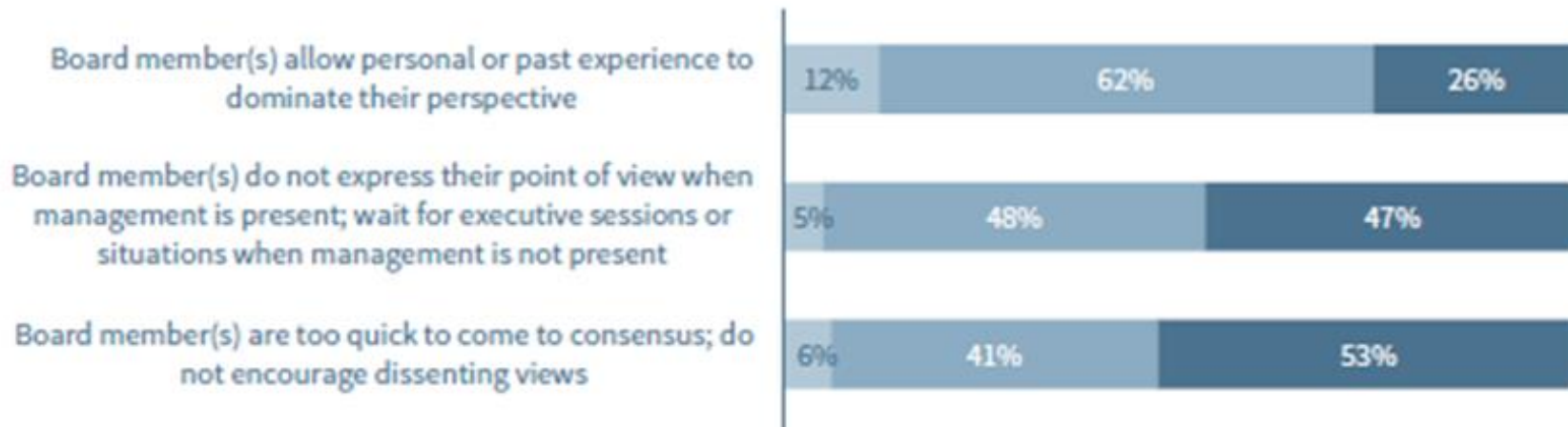
Create a Challenge Culture

- Encourage, require, and reward questions

- Professional skepticism is an essential element

- Dysfunctional culture could be a serious risk

Board Dynamics

- 47% of directors surveyed indicated their fellow directors do not encourage dissenting views

TO WHAT EXTENT DO YOU BELIEVE THE FOLLOWING ARE A PROBLEM ON YOUR BOARD?
(SORTED LEAST TO MOST FAVORABLE)

Board member(s) allow personal or past experience to dominate their perspective	12%	62%	26%
Board member(s) do not express their point of view when management is present; wait for executive sessions or situations when management is not present	5%	48%	47%
Board member(s) are too quick to come to consensus; do not encourage dissenting views	6%	41%	53%

Source: *Griffin, Taylor, D.F. Larcker, S. A. Miles, and B.Tayan. "Board Evaluations and Boardroom Dynamics." Stanford Closer Look Series (March 6, 2017)*

Foundational Elements of an Organization's Culture

- Identify the values and behaviors that help the company excel

- Identify behaviors for which there is zero tolerance

- Outline the company's desired cultural foundations

- Define how these align with incentives, policies, internal controls, etc.

Culture as an Asset

- Culture holds great value for the organization

- Metrics on customer satisfaction, safety, quality are higher

- Absence of ethical culture can be a liability

Culture as an Asset (Cont.)

- High-performing companies exhibit the following:

  ➢ 41% LOWER absenteeism

  ➢ 10% HIGHER customer metrics

  ➢ 17% HIGHER productivity

  ➢ 20% HIGHER sales

Source: Gallup: State of the American Workplace (2017), p. 68

Signifiers of "Healthy" Culture

- Ownership

- Transparency

- Resilience

Oversight of Corporate Culture: the Board's Role

- Board and its committees have ultimate responsibility

  ➢ Audit, compensation, and nominating and governance committees

- Board should set clear expectations about culture

- Organization's strategy and risk profile are impacted

- Culture should be a routine meeting agenda item

Oversight of Corporate Culture: Management Is Responsible

- COSO 2013
  - Culture part of control environment
  - Requires a fraud-risk assessment

- COSO ERM
  - Suggests companies define and report on culture

- Industry guidelines/requirements

- Federal sentencing guidelines

Culture of the External Audit Firm

- Culture of the audit firm impacts audit quality

- Turnover of staff can impact culture

- Messages from leadership are important

- Support from firm leadership when the team needs to raise difficult issues with the audit committee or management staff

Embed Culture into Strategic Discussions

EXHIBIT C **Culture-Embedding Levers**

Source: *NACD Blue Ribbon Commission on Culture as a Corporate Asset (2017)*

Mitigating Information Asymmetry

- Beware of filtering of information

- Understand the business model and how the company makes money

- Control the agenda – more discussion, fewer presentations

Culture Warning Signs

- Sharing bad news is discouraged

- Relationships outweigh skills to an inappropriate degree

- Frequent "near-misses"

- Prevalence of "go along to get along" attitudes

- Little regard for how results were achieved

- High performers allowed to operate outside established policies

Key Board-Level Discussion Tools

- Assessing corporate culture

- Management "tone at the top"

- Reports of compliance failures/ethical issues

- Code of business conduct and ethics

- Incentives

- Ethical risk assessment

Source: *NACD Blue Ribbon Commission on Culture as a Corporate Asset (2017) page 53-54*

Topics Covered by Culture Surveys

- Honesty/Respect

- Openness

- Accountability

- Competence

- Shared purpose

Source: *NACD Blue Ribbon Commission on Culture as a Corporate Asset (2017)*

Leadership Selection and Corporate Culture

- Culture considerations are integral to selection criteria

- Crucial interview questions:
  - What were key drivers of your past accomplishments?
  - How did you assess performance of senior team?

- Embed culture metrics in performance evaluations

Create Balance Between Reward and Recognition

- Performance-review criteria
  - Quantitative and qualitative
  - Short-term and long-term

- Consider multiple dimensions when evaluating performance
  - Balance profitability metrics with desired behavior metrics
  - Determine how the profitability goals were achieved
  - Job Satisfaction of others on your team

- Penalties and deterrents – if used in excess can create a culture of fear
  - Employees should feel safe bringing up bad news, reporting misconduct
  - Recognize the difference between mistakes and unethical behavior
  - Create a "lack of blame" culture that contributes to quality results

Internal Communications

- Management should reinforce importance of values and acceptable behavior

- Encourage reporting of misconduct through ethics hotlines, to supervisors, etc.

- Celebrate employees who exemplify core values in internal newsletters

- Provide examples of preferred resolution of ethical dilemmas

Key Takeaways

- Beware of culture drift

- Accentuate the positive

- Become familiar with the numerous resources available

- Culture should be in the DNA of the company and the boardroom

CPE Certificate

As a reminder, you may access your CPE certificate by clicking the orange CPE icon if you have fulfilled the attendance check requirements.

If you do not have an opportunity to obtain your CPE certificate during today's presentation, you may obtain your certificate *after* 24 hours by logging back into the event and clicking the orange CPE icon. Please note that you will not be able to respond to the attendance checks in the archive, and you must fulfill the attendance requirements during the actual presentation to receive your CPE certificate.

We Value Your Feedback

Please take our brief [webcast survey](#)

Visit www.AntiFraudCollaboration.org for additional resources and information