About the Anti-Fraud Collaboration

The goal of the Anti-Fraud Collaboration is to promote the deterrence and detection of financial reporting fraud through the development of thought leadership, awareness programs, educational opportunities, and other related resources specifically targeted to the unique roles and responsibilities of the primary participants in the financial reporting supply chain.

The Anti-Fraud Collaboration was formed in October 2010 by the Center for Audit Quality (CAQ), Financial Executives International (FEI), The Institute of Internal Auditors (The IIA), and the National Association of Corporate Directors (NACD).

The CAQ is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues that require action and intervention; and advocates policies and standards that promote public company auditors’ objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs. For more information, visit www.thecaq.org.

FEI is the leading advocate for the views of corporate financial management. Its more than 10,000 members hold policymaking positions as Chief Financial Officers, Treasurers and Controllers at companies from every major industry. FEI enhances member professional development through peer networking, career management services, conferences, research and publications. Members participate in the activities of 65 chapters in the US. FEI is headquartered in Morristown, NJ, with an office in Washington, DC. For more information, visit www.financialexecutives.org.

The IIA is the internal audit profession’s most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today has more than 200,000 members from more than 170 countries and territories. The IIA’s global headquarters are located in Lake Mary, Fla. U.S.A. For more information, visit www.theiia.org or www.globaliia.org.

NACD empowers more than 20,000 directors to lead with confidence in the boardroom. As the recognized authority on leading boardroom practices, NACD helps boards strengthen investor trust and public confidence by ensuring that today’s directors are well-prepared for tomorrow’s challenges. World-class boards join NACD to elevate performance, gain foresight, and instill confidence. Fostering collaboration among directors, investors, and corporate governance stakeholders, NACD has been setting the standard for responsible board leadership for 40 years. To learn more about NACD, visit www.NACDonline.org.
Contents

02 Executive Summary

04 Introduction

06 The Importance of Culture

10 Assigning Ownership of Culture
  10 Board of Directors and Audit Committees
  13 The Executive Team

14 Tools and Techniques to Assess Culture
  15 Culture Dashboard
  15 Culture Orientation
  17 Employee Information Gathering
  20 Performance Goals and Incentives
  21 Problem Identification
  23 Proactive Listening

24 The Role of Auditors
  24 Internal Audit
  26 External Audit

27 Assessing Board Culture

29 Conclusion

30 Resources

31 Notes
Executive Summary

+ When a corporate scandal occurs and stakeholders seek reasons and root causes, the trail often leads back to problems with the organization's culture. A proactive approach to culture can deter various types of misconduct and promote behaviors that can enhance morale and productivity.

+ Culture is unique to each organization; it defines the organization, influencing a wide range of decisions made about areas that include safety, innovation, quality, customer service, integrity, and employee behavior and decision making. Culture has a powerful ability to affect how people do their jobs; how decisions about quality, compliance, and other critical concerns are made; and how the organization is perceived both internally and externally.

+ Financial statement fraud is only one extreme example of a consequence of a weak ethical culture, while a strong ethical culture can mitigate the risks of fraud—including fraud that is immaterial to the financial statements. With that in mind, organizations should conduct regular assessments of the state of their culture.

+ Even with strong anti-fraud programs and controls in place, organizations should still consider what the results of these programs tell them about their culture. A robust culture assessment allows for early detection of warning signs, allowing leadership to take active steps to prevent and address problems.

+ One significant step in assessing culture is determining who owns it. While ultimate responsibility should lie with the board, that is not the case in many organizations. Management should take primary day-to-day responsibility for an organization's culture.

+ A culture dashboard with a variety of metrics is an excellent way for companies to collect and monitor information related to an organization's culture holistically. Organizations should mobilize cross-functional teams or committees to determine how best to obtain information for an effective assessment.
Just as there is no one-size-fits-all culture for all organizations, a culture assessment solution should be tailored to each organization’s culture and strategy. Organizations should determine which combination of tools or techniques will deliver an effective and thorough assessment. Options can include employee surveys, performance appraisals, whistleblower hotlines, and social media monitoring, among other tools.

Employees live the organization’s values in their daily tasks and interactions and can offer critical insights into the realities of an organization’s culture. A good indicator of a positive culture is if a high percentage of employees feel they are treated with respect and that company leaders have integrity.

Since the board is critical to maintaining and influencing corporate culture, any assessment should include an evaluation of board culture.

Board members should receive reports from internal and external auditors, as well as from teams charged with risk management and compliance.

Internal and external auditors should be encouraged to report warning signs of disruptions in the culture.

The board and management must not only set the proper tone at the top but also actively track and guide their organization’s culture. As part of this effort, a wide range of tools can help them gather information from and about employees, identify people who demonstrate their culture, use performance goals and incentives to encourage the right behaviors (and discourage those that are undesirable), target problems within the culture, and monitor observations about the organization.
When a corporate scandal occurs and stakeholders seek reasons and root causes, the trail often leads back to problems with the organization’s culture. Financial statement fraud is one extreme example of a consequence of a weak ethical culture, while a strong ethical culture can mitigate the risks of fraud—including fraud that is immaterial to the financial statements. Financial statement fraud is not the only risk, however. When there are fabricated reports, fraudulent accounts, or inaccurate claims related to revolutionary technology, the foundation for these and numerous other crises is often a culture that allows or encourages—inaudientently or not—illegal, unethical, or risky behavior. The consequences are significant if a culture that condones or even encourages such behavior—directly or indirectly—results in financial failures, but the costs of a weak culture can also accumulate over time with every risky decision or corner cut. Related scandals can mar the reputations that companies—boards of directors, management, internal auditors, and employees—work so hard to build. In the worst cases, organizations go out of business, shareholders lose their investments, and employees lose their jobs. Trust and confidence are hard earned but too easy to tarnish. A proactive

Culture represents the invisible belief systems, values, norms, and preferences of the individuals that form an organization. Conduct represents the tangible manifestation of culture through the actions, behaviors, and decisions of these individuals.

Oliver Wyman
*Measuring Conduct and Culture: A How-To Guide for Executives*
Building a Culture of Integrity

Integrity is the quality of being honest and behaving according to strong moral principles. The quote, "Integrity is doing the right thing, even when no one is watching," does a good job of summing up the concept.²

"More and more, culture is moving from a lofty, 'squishy' concept to something that should be defined, measured, and improved," according to a Deloitte publication.³ The publication makes several key points:

+ Ethics and compliance programs alone are not sufficient without a "culture of integrity."

+ Many regulators now realize that without a culture of integrity, organizations are likely to view their ethics and compliance programs as a set of check-the-box activities or—even worse—as a roadblock to achieving their business objectives.

+ A positive culture of integrity is the foundation for an effective ethics and compliance program, which, when properly embedded into an organization, can create a competitive advantage and serve as a valuable organizational asset.

For those reasons, organizations have begun to understand that tracking the leading indicators of culture should be considered a fundamental component of managing risk.¹
There are many compelling reasons—in some cases, requirements—as well as financial and other incentives for assessing and addressing culture.

Former IBM CEO Louis Gerstner called culture “the mindset and instincts” of an organization’s people. According to MIT’s Edgar Schein, organizational culture can be defined as a series of assumptions that individuals make about the groups in which they participate, visible through artifacts (including public statements, organizational structures, and key processes), stated goals and aspirations, and basic beliefs that are taken for granted. Culture is unique to each organization—and it defines the organization, because it embodies the values that the organization embraces and the behaviors of all employees and board members. It influences a wide range of decisions in such areas as safety, innovation, quality, customer service, integrity, and much more. It can sway whether an employee’s habit is to adhere to the rules or cut corners, treat fellow workers with respect and civility or not, and report unethical or illegal behavior or let it slide. As a result, culture has a powerful ability to affect how people do their jobs; how decisions about quality, compliance, and other critical concerns are made; and how the organization is perceived both internally and externally.

Culture’s influence is so clear that it has been recognized at the regulatory level. For example, public companies have a responsibility to consider culture in connection with their assessment of internal control over financial reporting and compliance with the Foreign Corrupt Practices Act. As noted in a paper by the Organisation for Economic Cooperation and Development (OECD) Global Anti-Corruption & Integrity Forum, “regulators around the world are increasingly focusing on corporate culture to help them curb corruption in companies.” In the United States, the US Office of the Comptroller of the Currency has assigned bank directors responsibility for “setting the tone at the top and overseeing management’s role in fostering and maintaining a sound corporate culture and risk culture.” The Financial Industry Regulatory Authority, which regulates broker-dealers, has said it is reviewing how these organizations establish, communicate, and implement cultural values, and which metrics they use to measure compliance with those values. The Federal Reserve Bank of New York calls an
ASSESSING CORPORATE CULTURE

The organization’s cultural capital “a type of intangible asset that impacts what a firm produces and how it operates,” according to the bank’s Executive Vice President Kevin J. Stiroh. In a 2019 speech, he noted that in organizations with high levels of cultural capital, “misconduct risk is low and observed structures, processes, formal incentives, and desired business outcomes are consistent with the firm’s stated values and risk appetite.” At those with low levels, however, “formal policies and procedures do not reflect ‘the way things are really done.” In addition, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has identified governance and culture as among the five interrelated components on which its enterprise risk management framework is based.

From an enforcement standpoint, updated guidelines from the US Department of Justice recommend that prosecutors consider corporate efforts to review and improve compliance programs, including regulatory expectations on how frequently an organization measures its culture of compliance; whether the organization seeks input to see if employees at all levels recognize senior and middle management’s commitment to compliance; and what it has done in response to its measurement of the compliance culture.

On the investment side, asset manager State Street Global Advisors announced in a proxy letter in 2019 that it would be “focusing on corporate culture as one of the many, growing intangible value drivers that affect a company’s ability to execute its long-term strategy.” The letter noted that State Street would be asking directors about how they were monitoring the progress of change in culture and that State Street had developed a framework for assessing and monitoring culture. As investors increasingly seek reporting on environmental, social, and governance issues, it seems likely that culture assessments will play an important role in addressing questions in all of these areas.

In addition to preventing unwanted consequences, a strong culture is also often considered a positive intangible asset. An EY report noted that, among surveyed FTSE 350 company board members:

- 86 percent of respondents said culture is fundamental or very important to their company’s strategy and performance.
- 92 percent said that investing in culture has improved their financial performance.
- 55 percent thought that investing in culture has increased operating profits by 10 percent or more.
- 32 percent of respondents cited fewer regulatory issues/legal actions as one of the top three benefits of their investment in culture.

Further, the EY report states: “Beyond the obvious financial benefits, respondents point to other tangible and intangible gains from investing in corporate culture, across both ‘value-adding’ and risk reduction outcomes. Reductions in breaches of organizational standards and improved employee performance are on top, with 26 percent saying they are the most important and 61 percent ranking them in the top three.”

ELEMENTS OF A TWO-FACTOR MODEL OF ETHICAL BEHAVIOR

The OECD created a Two-Factor Model of Ethical Culture, which includes positive aspects (Qualifiers) that will motivate employees to exhibit ethical behavior and negative factors (Disqualifiers) that are likely to increase unethical behavior.

<table>
<thead>
<tr>
<th>QUALIFIERS</th>
<th>DISQUALIFIERS</th>
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<tr>
<td>Organizational trust</td>
<td>Organizational unfairness</td>
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<tr>
<td>Ethical leadership</td>
<td>Abusive manager behavior</td>
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<tr>
<td>Benevolent orientation</td>
<td>Selfish orientation</td>
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<tr>
<td>Empathy</td>
<td>Lack of awareness</td>
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<td>Efficacy and speaking out</td>
<td>Fear of retaliation</td>
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- 92 percent said that investing in culture has improved their financial performance.
- 55 percent thought that investing in culture has increased operating profits by 10 percent or more.
- 32 percent of respondents cited fewer regulatory issues/legal actions as one of the top three benefits of their investment in culture.
Any assessment of corporate culture is also critical because of culture’s impact on corporate value. When asked to identify elements that contribute to corporate value, nearly half of senior executives listed culture in their top three choices.16

Similarly, a Columbia Business School study found that more than half of the senior executives surveyed said that corporate culture is one of the top three drivers of firm value, and 92 percent said that improving their culture would increase their company’s value.16 That said, a recent report from Grant Thornton and Oxford Economics reminds companies that it is important to consider the return on culture investment. This report provides quantifiable evidence that investing in culture leads to measurable financial gains. Efficiently investing in culture is more about where to invest than about how much.17

Foundational to an organization’s unique culture is a strong ethical culture. Studies show that organizations that encourage ethical behavior are more resistant to misconduct of all kinds, including financial reporting fraud. A strong culture hedges against all three sides of the fraud triangle, a framework that illustrates the factors that can motivate people to commit fraud: pressure, opportunity, and rationalization. In a strong culture, pressure to commit fraud is counteracted by sound risk management strategies and appropriate incentives.

Several factors can provide a foundation for a great corporate culture, according to the Harvard Business Review:18

+ Vision, which gives an organization a purpose.
+ Values, which serve as guidelines on the behaviors and mindset necessary to achieve the vision.
+ Practices, which explain how to carry out the company values.
+ People, who share the values or are willing to embrace them.
+ Narrative, which captures and shapes the company culture.
+ Place, which can shape and define employees’ values and behavior.

The board, the CEO, and senior management need to establish clarity on the foundational elements of values and culture—where consistent behavior is expected across the entire organization regardless of geography or operating unit—and develop concrete incentives, policies, and controls to support the desired culture.

NACD Report of the Blue Ribbon Commission on Culture as a Corporate Asset19

According to the NACD Report of the Blue Ribbon Commission on Culture as a Corporate Asset, organizational cultures and the factors that influence them incorporate elements that can include:20

+ Explicit and implicit rules.
+ Norms of behavior and interaction.
+ Compliance and ethics policies.
+ Incentives.
+ Recruiting and training activities.
+ Processes for decision making and prioritization (including budget setting).
Communication and information flows.

Leadership styles.

No organization has only one overarching culture; organizations encompass many subcultures. A culture assessment should illustrate how these subcultures interact, and whether their different cultures work together in a healthy manner or are at odds with—or completely disconnected from—each other or the intended overall culture. Subcultures may arise in particular in teams, such as those involved in innovation, quality control, sales, safety, risk, or diversity and inclusion initiatives. The priorities of a department charged with introducing a new product, for example, may be in conflict with those of teams concerned with quality control or safety standards. Such conflicts may be addressed through collaboration. If approached the wrong way, however, the conflicts may at least be counterproductive; at worst, they could lead to departures from normal company processes and procedures on risk taking and ethics.

It’s also useful to note potential downsides of even the most appealing cultures. An organization that “considers itself a family” may unintentionally motivate workers to protect people who cut corners or break rules or laws. An innovative culture might be too likely to take risks and dismiss more experienced and cautious voices. A strong culture is certainly an asset, but corporate leaders should be alert to the possible negative influences of a given culture.

Organizations should also consider the impact that international differences will have on culture—and seek to understand those differences and determine how best to measure and monitor them. Extending the organization’s values across international borders or to international teams requires more than translating the code of conduct or mission statement. It begins with ensuring that leaders in other countries understand the parent company’s culture and are familiar enough with local culture to spot cultural barriers that must be overcome to ensure that the parent company’s values are upheld. Those barriers may include differences in local laws and regulations, business ethics, and a variety of other potential roadblocks. Companies must be able to translate their values into ethical behaviors that acknowledge those cultural differences.
Assigning Ownership of Culture

One significant step in assessing culture is determining who owns it. While everyone in the organization is a part of its culture, if leaders decide that everyone “owns” culture, there is a danger that no one will take responsibility for driving it. A total of 75 percent of companies surveyed allocate the risk of corporate culture to the full board of directors, according to Deloitte and the Society for Corporate Governance. However, a total of 29 percent of directors strongly agree that a lack of board oversight contributes to culture problems, up from 18 percent in 2018, based on a PwC survey.

BOARD OF DIRECTORS AND AUDIT COMMITTEES

“Ultimate responsibility for oversight of corporate culture lies with the full board, because it is so closely connected with strategy and has significant potential to impact the company’s risk profile—two other critical full-board responsibilities,” according to the NACD. Board committees—including the audit committee; nominating and governance committee; compensation committee; risk committee; corporate social responsibility committee; and environmental, health, and safety committee—can also play a significant role in monitoring and influencing corporate culture. In many organizations, that may not yet be happening. A total of 51 percent of board members interviewed by EY agree the board should take more responsibility for shaping and measuring culture.

Boards may have room to improve in addressing culture concerns. The American Corporate Governance Index, developed by The Institute of Internal Auditors (The IIA) and the Neel Corporate Governance Center at the University of Tennessee, Knoxville Haslam College of Business gauges “whether the board and management are acting in the best interest of the company, whether there is a vision toward sustainability, a healthy culture, transparent and accurate disclosures, and effective policies and structures.” The most recent index gave corporate culture a grade of 82, or B-. “While this might seem encouraging at the surface, it still leaves significant room for improvement, consistent with calls from The IIA and other professional organizations for boards to place an increased focus on culture.” Consultant Spencer Stuart notes that “despite its sizable contribution to business results, few boards oversee culture with anything else in mind.”
like the rigor they do with strategy, risk or CEO succession planning.”

In fact, no effort to change or assess culture can be truly successful without full and visible leadership support. “Because of its significant interdependencies with strategy and risk, active monitoring of the organization’s culture is a full-board responsibility, with specific oversight activities housed in committees as appropriate,” according to the NACD Blue Ribbon Commission Report on Culture as a Corporate Asset.

With that in mind, boards and management should recognize the imperatives for and the benefits of assessing culture—how it can be defined in their organization, its positive influence, and any indicators of negative influence from a toxic culture or the lack of a cohesive culture. The assessment can provide a snapshot of—and warning signs about—departures from the organization’s stated values; identify ways to minimize financial or other risks; prevent damage to company reputation; and offer best practices for promoting and preserving corporate standards.

As part of its oversight role of the company’s financial statements and internal control over

### FIVE WAYS TO ENHANCE BOARD OVERSIGHT OF CULTURE

- Oversee how culture is defined and aligned to strategy.
- Create accountability for how culture is communicated and lived—internally and to key stakeholders.
- Monitor how culture and talent-related metrics are measured to keep a pulse on how culture is evolving.
- Provide oversight of intentional culture shifts to stay in step with strategy shifts.
- Challenge the board’s culture.

**Source:** EY

### HOW DO BOARDS MONITOR, EVALUATE, AND PARTICIPATE IN THEIR COMPANY’S CULTURE AND BEHAVIOR?

- **78%**
  - Hotline reports

- **68%**
  - Review findings from investigations

- **58%**
  - Receive results from culture surveys

- **47%**
  - Discuss culture and behavior more than once a year at board and/or committee meetings (as part of the monitoring process)

**Source:** Deloitte and the Society for Corporate Governance, Board Practices Report: Common Threads across Boardrooms, 2018. The survey was based on responses from 102 individuals who represented organizations from a range of industries and market capitalization sizes.
financial reporting, the audit committee is in a unique position to assess the risk of fraud and consider how culture impacts fraud risk. Audit committees should determine if assessing culture is part of the internal audit annual plan, requesting views on culture from the external auditor and others within the organization. The audit committee of the board is well positioned to own oversight of culture specifically, given its role in overseeing financial reporting, internal audit, and other compliance functions. Some experts recommend that the CEO should be the organization’s chief culture officer, because of the important standards of behavior that he or she sets for the entire business.

The audit committee may also recommend the creation of a culture director or chief culture officer role. Another possible recommendation is the development of a culture oversight committee with interdisciplinary members representing various operational business units, human resources, compliance, legal, finance, internal audit, and others as deemed appropriate.

Boards should coordinate their various committees to gather information and insights to form a complete picture of the organization’s culture. In a report, Marsh & McLellan and Women Corporate Directors recommend the following actions for the board and three of its committees: 29

**Full Board**

- Consider cultural issues in CEO selection.
- Capture a comprehensive range of information on corporate culture.
- Ensure culture is a regularly scheduled board agenda item.

**Audit Committee**

- Review compliance updates.
- Review whistleblower reports.
- Examine deep-dive data from employee surveys.

**Compensation Committee**

- Ensure that the compensation structure supports desired culture and ethical behavior.
- Consider culture-related elements in executive compensation.

**Nominating Committee**

- Consider culture in director selection and board diversity.
- Review succession planning and process for senior executive officers.

According to PwC, 98 percent of compliance and ethics executives believe company senior leadership is committed to compliance and ethics; however, 55 percent say senior leadership’s involvement in the compliance and ethics program is either ad hoc or delegated.

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PwC
*How Your Board Can Influence Culture and Risk Appetite* 30
THE EXECUTIVE TEAM

The OECD cites leadership conduct as one of the five key dimensions of culture. “Do leaders engage in behavior that strengthens or weakens a company’s ethical orientation? This is a fundamental question, as leadership has traditionally been associated with the ability to influence and motivate others,” according to Organizational Culture Drives Ethical Behaviour: Evidence from Pilot Studies.31

“The board’s main instrument by which they can influence culture is through the selection of the CEO, and in turn, the team the CEO develops,” director Liz Coutts has observed.32 The senior executives—and the people they hire—should not only articulate the corporate values and expectations but also exemplify them in their actions and words. If they fail to communicate and follow up on their commitment to integrity and ethics, there is a good chance that inappropriate behaviors could occur. The CEO must ensure that executives understand their role in carrying out culture expectations and assign accountability for assessing and limiting risk.

Management has primary day-to-day responsibility for an organization’s culture. Together with the board of directors, management sets the “tone at the top” by communicating and visibly adhering to clear ethical principles and codes of conduct, and by providing necessary support and resources for robust fraud risk management programs and internal controls.

“Management” is a broad term and can refer to the C-suite as well as to various levels of management, compliance, human resources, and finance and accounting, among others. As it relates to assessing the risk of fraud and misconduct associated with the company’s ethical culture, management includes not only the finance function but also business units, subsidiaries, and immediate supervisors at all levels.

COSO recommends that questions on culture for management include the following:33

• How does the culture enable or inhibit responsible risk-taking?

• What lens does management use to monitor the risk culture, and how has that changed?

The infrastructure to prevent financial crime may be sound, but its effectiveness still depends on execution, on individuals doing the right thing at the right time—culture is what enables and drives those appropriate behaviors.

Deloitte “Risk Angles: Five Questions on Financial Crime”34

• As things change—and things will change regardless of whether they’re on the entity’s radar—how can the board be confident of an appropriate and timely response from management?

Boards should also be aware that the CEO should be periodically evaluated to determine whether his or her impact on culture continues to suit the company’s needs. In many cases, a founder who drove a company from its inception may not have the skills or mindset to lead that company when it goes public, for example. Changes in leadership may also be necessary to create and maintain the right culture after a major acquisition, a period of significant growth, or any other momentous change in the organization. In other words, the job of evaluating culture—and the people charged with maintaining it—is ongoing.
Many organizations have developed strong anti-fraud programs and controls, including a fraud risk assessment; a code of conduct; an annual confirmation process and related training; a whistleblower or ethics hotline; effective internal controls; and robust internal audit programs. Such programs demonstrate that leaders at these organizations take seriously their responsibility for setting the right tone at the top.

However, stakeholders who have a role in the financial reporting ecosystem may be focused on compliance violations or audit findings, and, as such, may overlook considering what the results of these measures tell them about the organization’s culture.

That’s why it’s important for organizations to be aware of and make use of the many tools and techniques available for a robust culture assessment. Assessments allow for the early detection of warning signs and the opportunity to take active steps to minimize and address problems.

A culture assessment can offer organizations actual data about how the culture works on a day-to-day basis and over time, in contrast to the gut feeling that many companies may be relying on to judge culture and their own success in reinforcing values and preventing inappropriate actions. Reports should enable stakeholders to track, monitor, and take action based on how the culture is influencing attitudes, behaviors, and decisions.

As part of the process, stakeholders can ask the following questions:

+ What strengths and weaknesses does the assessment reveal? Do we have the culture we thought we had? If there were incorrect assumptions, how did they develop?

+ Can we see how our culture influences problems with fraud, theft, compliance, and safety issues? Or how it prevents us from achieving our goals, or influences any number of other concerns? Based on our assessment of culture, do we know where, when, and how problems occur? Do we have enough information to anticipate emerging problems or identify potential problem areas?

+ What do employees do when they’re under pressure or when they face a risky, unethical, or illegal
decision? Do they know the right way to address these challenges, based on our corporate values or code of conduct? Do they have the resources, ability, and autonomy to solve problems? Are they likely to take the initiative to address concerns, or is risky or unethical behavior condoned?

CULTURE DASHBOARD

A culture dashboard is an excellent way for companies to collect and monitor information related to an organization’s culture holistically. A dashboard can include metrics from a variety of areas and reports in numerous forms. Throughout the process, organizations should be looking not just for red flags but also for the yellow flags that indicate emerging problems. An important element of a culture dashboard is its ability to monitor trends over time. It may be useful for organizations to mobilize cross-functional teams or committees to determine how best to obtain the information.

It is important, too, to recognize that there is no one-size-fits-all assessment solution for all organizations. Organizations should determine which mix of tools or techniques will deliver an effective and thorough culture assessment.

CULTURE ORIENTATION

While not strictly a part of the culture assessment, orienting employees to the organization’s values and mission can instill attitudes early on, preventing the need to address unwanted behaviors later.

Hiring

Introducing employees to corporate culture can start as early as the initial hiring process. Interviews can focus on behaviors that are consistent with the organization’s stated values and mission. Behavioral interview questions can be designed to assess candidates’ attitudes on important culture topics, such as integrity, respect, and civility. To get a candid sense of attitudes, the Society of Human Resource Management (SHRM) recommends asking candidates about their opinions on various topics before opening any discussion of the organization’s culture, so that the interviewer does not unintentionally prompt any particular answer.34 SHRM also suggests that at least three people take part in the hiring process to gain a range of perspectives on the candidate’s cultural fit.

WHICH OF THE FOLLOWING DO YOU USE TO EVALUATE YOUR COMPANY’S CORPORATE CULTURE? (TOP 5 CHOICES)

- Employee engagement survey: 68%
- Employee turnover statistics: 65%
- Intuition/gut feeling from interacting with management: 64%
- Attrition of high performers vs overall attrition: 51%
- Exit interview: 45%

The table below offers a high-level overview of metrics to include in a dashboard. By using a combination of these tools, culture can be best assessed and understood.

<table>
<thead>
<tr>
<th>Corporate Area</th>
<th>Information Source</th>
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| Human resources      | + Employee attrition rates  
                        | + Employee absence rates  
                        | + Employee engagement survey  
                        | + Performance management processes and data  
                        | + Employee dismissals and reprimands  
                        | + Employee exit interviews*  
                        | + Employee focus groups*  
                        | + Employee self-assessments* |
| Internal audit       | + Audit findings  
                        | + Remediation status*  
                        | + Time to remediate audit findings* |
| Compliance and ethics| + Employee helpline/hotline data*  
                        | + Results of internal investigations  
                        | + Organizational culture survey  
                        | + Compliance training results  
                        | + Customer support or complaint logs* |
| Strategy and finance | + External factor analysis  
                        | + Goal setting and performance metrics  
                        | + Accounting issues |
| Operations           | + Environmental, health, and safety metrics  
                        | + Cybersecurity metrics  
                        | + Customer feedback |
| Management           | + Observations on tone at the top  
                        | + Organizational design |

Source: Adapted from the NACD Report of the Blue Ribbon Commission on Culture as a Corporate Asset, except for items that are asterisked.
Onboarding

Onboarding procedures and other training can teach new employees about the company’s code of conduct, values, standards, and expectations, while reward and recognition programs can motivate them to uphold those values and standards. Reports on these efforts can be included in the culture dashboard to ensure that they remain robust and continue to reflect the organization’s values.

EMPLOYEE INFORMATION GATHERING

Employees live the organization’s values in their daily tasks and interactions. Just as important, they also observe how other workers, managers, and corporate leaders are living up to those values. Employees can offer critical insights into the realities of an organization’s culture.

Employee Surveys

Two areas that organizations often choose to assess are engagement and culture. Employee engagement surveys are popular tools that provide valuable insights. For some organizations, these surveys may constitute the entire culture/engagement assessment. However, companies should not rely on these surveys alone. They should use them as part of a larger effort to assess culture.

If culture is about how the organization works, engagement reflects how people feel about the way the organization works. Engagement surveys are designed to measure and assess employees’ engagement and motivation, while culture surveys ask employees’ perceptions of how culture works within the organization; there are overlaps and interrelationships between the two types of surveys. Engaged employees—ones who believe in their organization’s values and mission and who feel the organization allows them to do their best work—are motivated to do well and to uphold the organization’s standards and maintain its intended culture. While an engagement survey can provide insights into culture—and vice versa—companies should be intentional in determining what they want to measure.

If a company is at least generally successful, then corporate leadership may take employee engagement as a given, but an employee engagement survey can sometimes challenge their assumptions. In fact, a meager 27 percent of US employees strongly believe in their company’s values, according to a survey by Gallup, which added that “leaders may well find their culture doesn’t resonate with their workers.”

Employee attitudes are important because employees are the people implementing and modeling corporate culture every day. A total of 71 percent of respondents in one survey used engagement surveys the most when assessing culture.

At the same time, however, surveys have limitations. A generally positive survey may not reveal looming problems that have the potential to cause significant damage. In addition, survey questions may be too vague or too broad to identify nuanced problems. Finally, those who are closest to some of the most significant threats to the organization—for example, an employee in a department whose culture supports risky practices or toxic behaviors—may be least likely to take the survey because they are alienated or concerned about repercussions. Management should certainly consider ways to alleviate these concerns and encourage participation.

Even if a survey shows positive engagement, it’s also useful to “drill down” and see how the numbers...
break out by question or subject area. For example, consider a company that finds that 75 percent of employees say they are comfortable raising issues with senior management, 5 percent are not, and 20 percent are neutral. That’s a seemingly good result, but keep in mind that the 20 percent who are neutral could indicate ambivalence about going to management. Depending on events, their opinion could become negative fairly easily as well. While perfect scores aren’t necessary, organizations should examine negative and neutral results to identify areas to watch or potential emerging problems.

“Assessing Culture: 10 Questions” (at right) offers questions developed by Gallup that organizations can use as a starting point in assessing culture and employee engagement, along with three questions for managers. As another example, The IIA has created a detailed Sample Organizational Culture Survey, which covers issues including communications, dealing with change, employee input, job satisfaction, respect, collaboration, understanding of company objectives, and openness to suggestions and improvements. Organizations may consider flipping some of their questions. For example, the 10 Questions ask participants to affirm a positive behavior. Companies might also ask some questions as a negative assertion, such as: “We are struggling to respond fast enough to customer and marketplace change.” These types of questions may be developed based on concerns the organization has about worst-case scenarios or issues that leaders suspect could be a threat, such as marketplace change. It may also be a good idea to ask employees about their supervisors, in addition to top leadership.

Once all of the concerns from various channels are considered, a good indicator of a positive culture would be if a high percentage of employees feel they are treated with respect and that company leaders have integrity—assuming all of the negative issues raised are minor.

Once a year, the board should be given a more detailed analysis. In addition, shorter “pulse surveys” are effective tools for asking a few targeted questions throughout the year. They can be designed to gather insights into specific areas of the organization or in response to events within and outside the company.

### ASSESSING CULTURE: 10 QUESTIONS

Developed by Gallup, these questions “provide leaders with insights into the outcome metrics that contribute to a successful culture.”

1. Ethics and compliance: If I raised a concern about ethics and integrity, I am confident my employer would do what is right.
2. Diversity and inclusion: At work, I am treated with respect.
3. Leadership trust: I trust the leadership of this organization.
4. Leadership inspiration: The leadership of my company makes me enthusiastic about the future.
5. Disruption: We have the speed and agility to meet customer and marketplace change.
6. Employee engagement: There is someone at work who encourages my development.
7. Performance management: I have received meaningful feedback in the past week.
8. Well-being: My company cares about my well-being.
9. Sustainability: My organization makes a significant contribution to the world.
10. Mission and purpose: The mission or purpose of my organization makes me feel my job is important.

Gallup also recommends asking three questions of managers to determine if they are supporting and exemplifying the organization's culture:

1. How well do our purpose, brand, and culture align?
2. How clear is our purpose to our employees, and are they clear on how it impacts our customers?
3. How do you and your team show that you’re committed to supporting our culture?
Equally important to conducting an engagement survey is the follow-through. What actions will the company take to address identified issues, and how are those decisions made and communicated? These questions should be considered by the board and management as they develop procedures to address problems found in various areas and levels of the organization.

**Exit Interviews and Employee Trends**

Human Resources typically conducts exit interviews when an employee leaves the company. These workers can be a valuable source of information about concerns within the organization because, as departing employees, they may speak more freely. The interviews can be conducted in person, over the phone, or online. However, in-person interviews (as opposed to using an online survey) can allow the interviewer to ask follow-up questions or delve deeper into important responses.

Companies that conduct these interviews can use them to identify causes of turnover, spot problems that affect employee behavior or morale, or uncover issues with management that should be addressed. Organizations should ask employees candid questions on the positive and negative aspects of their experiences and solicit their opinions on how well the company lives its values or mission.\(^{43}\) Most important, companies should develop a process to collect, retain, and act on information. This process can be implemented by training human resource managers on the importance of these interviews, how to identify and gather detail on key topics, and how to capture and communicate responses effectively.

Attrition rates may also indicate problems with corporate culture. In reviewing them, questions to ask include the following:

+ Are we losing more people in particular areas? If so, is it clear what could be causing those losses? Is the culture of the unit, division, or team a factor? Are there challenges based on different cultures in international locations?

+ Is attrition worse for high-performing people than overall? Why would high performers be leaving the organization?

**MAKING CHANGE: KEY INFLUENCERS**

Every organization has key influencers: people who are well known by their peers (and most likely by others outside their department and above and below their level). They may not be in a leadership role, but they likely know a great deal about the company’s workings and may have an impact on attitudes and behaviors. As part of a culture assessment, organizations would do well to identify these employees and integrate them into the process. At a minimum, they can be recruited as champions who help communicate and uphold the company's values and mission. Separate surveys or focus groups for influencers or champions can also help uncover especially pertinent observations.

To find champions, an organizational network analysis is “an emerging form of HR technology that captures data from e-mail, instant messages, feedback surveys and collaboration platforms to help identify and understand how people communicate within an organization,” according to SHRM. The analysis is used to spot “informal ‘go-to’ teams or individuals in every organization that serve as hidden influencers, those whose opinions hold sway with peers and who know how to get things accomplished—or know how to quickly find the right people with the answers.” This tool can be used to identify people who can be change agents in any efforts to shift corporate culture or behaviors.\(^{44}\) Is the amount of time it takes to fill positions getting longer over time, especially for key roles? If so, why? This metric may reflect a change in the company’s reputation in the marketplace or on social media that is discouraging talented people from coming on board, which in turn may indicate deeper problems in the corporate culture.
Focus groups are typically made up of a diverse selection of employees who take part in a guided discussion about a particular issue. They can offer a deeper look into some of the issues identified in culture or engagement surveys to better understand the cause or depth of a problem. The leader can be an employee with experience in leading focus groups or an outside expert. The results of these groups can complement the information gleaned in surveys, because they are more flexible, allowing for extended discussion of critical concerns or unexpected issues that employees raise. They can also be used to gain a specific understanding of one area of the organization. Since they are not anonymous, participants should be assured that they can speak freely without repercussions in order to ensure candid—and useful—dialogue.

Self-Assessments

This is a private self-evaluation that an employee takes to consider his or her own behavior and accomplishments, among other factors. While it is not intended for upper management review, it can be used to ask the employee to rate himself or herself on culture metrics. Doing so can help reinforce positive behaviors and address any misunderstandings about corporate values and expectations, or highlight areas in need of improvement. If the company is not doing an effective job of communicating its values, for example, a self-evaluation that states those values and asks employees to reflect on how well they live them, can contribute to a better understanding and, perhaps, inspire positive change. The results of these assessments will not end up on a culture dashboard, but they can still be a valuable part of an effort to promote certain behaviors.

PERFORMANCE GOALS AND INCENTIVES

Performance Appraisals

Performance goals can be a powerful tool to motivate executives—and, indeed, employees at other levels—to follow corporate values and encourage others to do so. As part of their culture assessment, organizations can design goals that support corporate values and avoid condoning or inadvertently encouraging problematic behaviors.

The board and management should consider whether performance goals that are solely associated with revenue growth or profits may encourage the wrong actions or behaviors, PwC notes. “There are too many instances when even senior management can be blinded by superior returns that may come from engineering shortcuts or selling to phantom customers. If it seems too good to be true, follow the money. It may be your compensation plans that are at the root of the problem.”

Incentive Programs

Incentives, in particular, can be used to motivate certain behaviors. They can also promote bad decision making and inappropriate risk-taking. For example, when employees focus on aggressive production or sales goals, they can put performance over corporate ethics or standards.

HR analytics collect key metrics and other data that can make sense of human capital trends in the organization. The analytics provide evidence of how a culture is lived and discussed. SHRM, for example, notes that survey answers can be unreliable and capture only a moment in time at an organization. The authors of an article on SHRM's website “used big-data processing to mine the ubiquitous ‘digital traces’ of culture in electronic communications, such as emails, Slack messages, and Glassdoor reviews. By studying the language employees use in these communications, we can measure how culture actually influences their thoughts and behavior at work.” An article on the site Towards Data Science discusses how it can be used in addressing attrition—which can be a result and an indicator of problems in the corporate culture.
“At the full board level, the discussion can extend to the link between incentives and enterprise risk management,” according to the NACD Report of the Blue Ribbon Commission on the Compensation Committee. “In the broader discussion surrounding strategy, compensation reports can address whether the annual incentive program supports or discourages the right behaviors to meet the goals and objectives.” The report recommends that the compensation committee educate the rest of the board on components of compensation programs and philosophy.

**PROBLEM IDENTIFICATION**

Several tools can collect information about problems or issues in the making. To foster their acceptance and usefulness, organizations should consider developing a “speak up culture”—one that encourages employees to share concerns about unacceptable attitudes or behaviors, and reassures them that there will be no repercussions for coming forward. “Employees who make concerns known help organizations thrive by identifying issues and providing opportunities to adapt, innovate, and avoid costly mistakes,” notes the Notre Dame Deloitte Center for Ethical Leadership.49 “Encouraging the Reporting of Misconduct: A Roundtable Summary,” published by the Anti-Fraud Collaboration, offers practical insights for companies on this topic.50

**Metrics on Employee Hotline Calls and Whistleblower Complaints**

A total of 78 percent of boards receive information on their organization’s hotline reports.51 “An internal whistleblower hotline is a critical component of a company’s anti-fraud program, as tips are consistently the most common method of detecting fraud,” according to an article in the Harvard Law School Forum on Corporate Governance and Financial Regulation.52 To ensure an effective program, which would be part of any assessment effort and support a valid assessment, the article recommends the following:

- The whistleblower program should be an integral part of the company’s compliance and ethics program.
- Employees should be educated about the program and encouraged to use it.

The fact is a company can have a carefully designed compensation program, and employees may be able to recite all of the right mantras about corporate values, but if the way one gets ahead is not by their achievements but by political maneuvering, brute force, or excessive risk-taking then that is what will define the true culture.

**NACD Report of the Blue Ribbon Commission on Culture as a Corporate Asset**53

+ Tips should be anonymous and confidential.
+ The company should communicate that it is illegal to retaliate against those who act as whistleblowers.
+ Companies should consider offering financial and nonfinancial incentives to whistleblowers.
+ Companies should record and assess call volume to determine rate of employee use, how often and how quickly complaints are followed up, how often claims are substantiated, and which areas are most often the subject of claims. The data should be reviewed regularly to spot and understand the reasons behind improvements or new weaknesses.
Employees should have multiple ways to report problems, including not only a designated phone line but also a postal address and a website.

The process should be evaluated regularly to measure trends in calls, problems in accuracy, confidentiality, timeliness, and indicators of effectiveness.

The article also recommends that companies benchmark their hotline data with those of their peers and overall industry to determine if a relatively high volume of calls indicates problem areas. However, companies should be aware of jumping to conclusions in this determination since fewer-than-average calls may be a sign that the hotline and the corporate ethics program are ineffective. A large number of calls, on the other hand, may show that engaged employees are comfortable using an effective and successful program. A nuanced examination of the results is called for, in other words.

A best practice would be for the board to review a report each quarter on the number of issues in the survey that are ranked as having a high, medium, or low level of seriousness. The report might also include how many issues were resolved, what actions were taken, and when such actions were taken.

Organizations should be alert to trends in reports or complaints that could point to problems in certain teams or in overall culture. Boards may ask management to conduct follow-up investigations of troubling results or do their own research.

Moss Adams notes that branding the hotline as a helpline can present it in a more positive light. Employees can be made aware that it is a place to ask questions about, for example, compliance guidance, quality control, workplace safety, and other queries that can prevent concerns or misunderstandings from becoming serious problems. Employees can also offer suggestions for improvements.

One caveat when it comes to whistleblower hotlines: there are several ways to undermine the value of this assessment. For example, there may be a temptation at the board level or elsewhere to find reasons to dismiss tips as complaints of dissatisfied employees. It’s possible, too, that some managers might discourage or rationalize employee reports before an employee reaches out to the hotline. Organizations should take care to identify and discourage these reactions.

Customer and Vendor Complaints

Remember that engagement surveys are not only for employees. In addition to gathering information on outsider complaints, organizations should consider asking similar questions of or reaching out in other ways to customers, suppliers, lenders or other members of the financial community, business partners, and other stakeholders to get a full sense of the corporate culture and how it is perceived by these parties.

Companies can gather information from a dedicated website, hotline, or other repository where outsiders are encouraged to report complaints. Organizations should analyze the data to identify strengths and weaknesses, as well as trends that show risky, illegal, or unethical behavior or any other divergence from company values and standards.
Contributors benefit the most when they understand that the hotline helps keep risk at acceptable levels so that key stakeholders can respond quickly and appropriately to future threats and emerging risks.

Moss Adams
“Detect Fraud Sooner by Improving Your Whistleblower Hotline”56

PROACTIVE LISTENING

There are many informal ways to evaluate a company’s culture.

Take a Walk

“Management by walking around,” a phrase popularized by Thomas J. Peters and Robert H. Waterman in their book *In Search of Excellence: Lessons from America’s Best-Run Companies*, refers to company leaders making informal, unannounced visits to various corporate locations. This approach can be an effective way to get a hands-on sense of how culture is being lived at different levels of the organization. This is not only useful for gathering information and impressions, but it can also demonstrate leadership’s commitment to a strong, positive culture. Some recommendations include the following:

+ Don’t make it a board “field trip.” Information gathering can best be done one-on-one, with management representatives interacting with employees at all levels to hear opinions and experiences. In other words, the board or several members of management shouldn’t all visit an office together; rather, they should make individual stops to talk.

+ Meet with executives from a wide range of business units to promote the board’s ideas and expectations about culture—and ask them to share them with their staff. For example, for executives, members of the audit committee, the director of audit, general counsel, or other leaders, consider monthly or quarterly meetings with selected department heads or mid-level employees to gain a sense of shifts in culture.

Monitor Social Media

Management should monitor the volume and themes of comments made about the company on social media and message boards by current and former employees, customers, competitors, and members of the community where the organization does business, among others. A Deloitte report notes that Starbucks, for example, reviewed thousands of social media comments to see the company through employees’ eyes and address any problems.57 This will not only identify problems but also enable the organization to address false or incorrect information. Since social media can have a significant negative impact on a company’s reputation, the people in charge of monitoring different channels should have an understanding of the importance of culture and reputation to spot and report on trends in what’s being said about the organization.
Board members should receive reports from internal and external auditors, as well as from teams charged with risk management and compliance. The auditors should be encouraged to report warning signs of disruptions in the culture.

**INTERNAL AUDIT**

The IIA recommends that culture be assessed as part of internal audits, and organizations may find it is a regulatory requirement in some of the jurisdictions in which they operate. According to the NACD, only 39 percent of board members get information on culture from internal audit, however. Given its reach throughout the organization and deep knowledge, internal audit is well equipped to evaluate culture. “Internal audit, as the third line of defense in an organization’s governance framework, is uniquely positioned to assist an organization in evaluating its culture,” according to The IIA.58

The following are a few potential roadblocks for an internal audit review of culture.

+ Culture can be difficult to define and measure using traditional audit tools, since any assessment is examining not metrics but how employees behave. The IIA guidance recommends that internal auditors who assess culture be familiar with hierarchical norms within the organization; skilled at reading nonverbal clues; in a position to ask tough questions on uncomfortable subjects; and able to remain objective and to separate their personal feelings from their observations.

+ There may be different types of cultures in various sectors of the organization, based on function, location, or other factors, that will have to be taken into account in an assessment.

+ Culture may change continuously, based on organizational growth or other factors, making it difficult to judge current and long-term impact.

According to The IIA, internal auditors can help organizations by:

+ Identifying root causes in problem areas as well as in areas operating with best practices.

+ Assessing the governance structure related to culture and conduct.
• Evaluating how well the organization communicates values, strategies, and objectives.

• Assessing the effectiveness of training on issues related to culture, such as the organization’s code of conduct, ethics, policies on sexual harassment, or other issues.

• Evaluating employee incentive and hiring programs, disciplinary actions, escalation protocols, treatment of whistleblowers, and key performance and risk indicators associated with culture.

Typical steps in an internal audit of culture might include the following:

• Gathering information. This stage of the process would include many of the cultural assessment tools used in the culture dashboard.

• Considering culture and conduct risks in the audit plan.

• Risk assessment. Since cultural risks may take a variety of forms and occur anywhere within the organization, the internal auditors should conduct a thorough assessment.

• Planning and performing the engagement. Planning and performance might use one of three approaches, according to The IIA. The integrated approach considers culture risk factors in all engagements. In the targeted approach, a key process or control related to culture is selected and tested across the organization. The top-down approach, or a comprehensive audit, examines all culture-related activities.

• Reporting. Given culture’s intangible and changing nature, The IIA notes that alternatives to a traditional report format are acceptable. “An organization’s culture can be an intangible, fluid thing,” according to the practice guide, “and the [chief audit executive] must be free to communicate issues that may not rise to the level of a formal control deficiency/recommendation, in addition to any formal, written recommendations identified in the report.”

RISK FACTORS RELATED TO CULTURAL PROBLEMS

According to The IIA, identifiable key risk factors arising from cultural problems include but are not limited to the following:

• Unreasonable expectations, including deadlines, profitability, or levels of efficiency.

• Incentives not aligned with values.

• Employees’ (including internal auditors’) lack of knowledge about key risk management activities and potential risk impacts.

• An inflexible hierarchy impeding the flow of information up, down, and across the organization.

• A pervasive environment of mistrust toward auditors and regulators, including a lack of understanding of the role of controls in achieving business objectives.

• An attitude of hubris (e.g., “That will not happen here” or “That has never happened to us before”).

• Lack of accountability, especially at senior levels of the organization.

• Failure to enforce codes of conduct and related policies and procedures.

• Management (and, in some cases, the board) refusing to acknowledge information contrary to their opinions.

• Disregard of laws and regulations if they are not conducive to the organization achieving its objectives.

Source: The IIA, Practice Guide: Auditing Culture69
EXTERNAL AUDIT

As part of the external audit, auditors first consider culture during their client acceptance and continuance process. When performing an external audit of financial statements, auditors obtain a sufficient understanding of internal controls and discuss the susceptibility of the company’s financial statements to material misstatement due to error or fraud during the planning process. This discussion should include, among other things, a consideration of the known external and internal factors affecting the company that might create incentives or pressures for management and others to commit fraud; provide the opportunity for fraud to be perpetrated; and indicate a culture or environment that enables management to rationalize committing fraud.

Based on their interaction with company personnel of various departments and levels, external auditors have a unique perspective on a company’s culture. External auditors can provide their views to the audit committee and consider culture when planning and performing audit procedures.

In recommendations for external auditors in *Financial Fraud Deterrence and Detection*, the Center for Audit Quality (CAQ) notes that a strong ethical culture “cascades down through the entire organization.” Auditors may ask management and the audit committee about how they integrate tone at the top into culture at all levels, focusing on company communications and training programs. This conversation can address how management at each level reinforces the intended messages with their direct reports.

Auditors may also consider determining how management and the audit committee monitor culture and confirm that it mirrors the tone at the top, asking about monitoring tools used and how the results are employed. They should discuss any observations from the audit about tone at the top. In addition, they may also share with management, the board, and the audit committee information on leading practices related to ethics communications, hotlines, and programs that mitigate fraud risk. Although the CAQ recommendations address financial fraud concerns, they are applicable to all aspects of culture.

I believe a firm’s cultural capital can be measured, assessed, and ultimately impacted in ways that can improve outcomes and enhance a firm’s resiliency.

Kevin J. Stiroh
Executive Vice President,
Federal Reserve Bank of New York
Since the board is critical to maintaining and influencing corporate culture, any assessment should include an evaluation of board culture. The NACD Report of the Blue Ribbon Commission on Board Evaluation: Improving Director Effectiveness noted that “the wrong culture can turn a group of highly competent and experienced directors into a poorly performing board.” The NACD recommends that boards should assess their own culture through regular formal evaluations and informal reviews—and then use the results in decisions about board composition, leadership succession, and areas in need of improvement. The board's evaluations of culture should also encompass senior management, especially those responsible for key risk management issues, compliance, and internal controls.

Like corporate culture, the culture of any board is influenced by its members’ attitudes and spoken and unspoken values and assumptions, among other factors. The board should be prepared to evaluate its own culture and effectiveness in being a positive influence and to make changes as needed. The assessment of board culture can help identify new board members whose values align with those of the organization.

Consulting firm Spencer Stuart has found that boards tend to exhibit one of four main cultural styles; each has its own merits as long as it aligns with the organization's strategy and overall business environment:

- **Inquisitive**, in which the group is open to new ideas and alternate approaches.
- **Decisive**, which places an emphasis on quantifiable results and outcome-oriented decisions.
- **Collaborative**, where consensus is emphasized.
- **Disciplined**, in which consistency, risk management, and planning are valued.

According to Spencer Stuart, boards that want to assess or shift their culture can consider these questions:

- Do we have the right people in the boardroom? The board should consider how directors will reinforce its current values or styles—or the ones it would like to embody.
Are we structuring our discussions and assignments to focus on the right issues and activities? The board's meetings and tasks should support collaboration, decisiveness, or any other style it would like to maintain or adopt.

Do board and committee leaders model the desired board culture? Board and committee chairs should exemplify and encourage the behaviors and attitudes that will promote productive decision making and leadership. Their decisions and actions should exemplify and reflect the desired corporate culture.

Do individual directors consider how they are contributing to the culture? Board members should give thought to how they are supporting the board's or organization's culture goals and provide feedback to other members on their behavior or attitudes. In other words, are they embracing the spirit of discipline, inquisitiveness, or any other style that will make the group more effective?

Factors that can inhibit the growth of a healthy board culture include the following:

- A dominant inner circle who carry undue influence.
- Board members or groups of them who pursue their own agendas.
- An inability to deal with healthy disagreements. Board members should be able to speak their minds while maintaining a collegial atmosphere—with each other and with members of management.
- Board members who interfere inappropriately with the details of the organization’s operations.
- Board members who come to meetings unprepared or who avoid committee assignments or other responsibilities.
- Board leaders who attempt to work unilaterally.
Each organization's culture can be a valuable asset that management can harness to reinforce desired behaviors and attitudes and to drive required changes. With the board and management setting the right tone at the top, it is possible to achieve a culture that will spot and mitigate risks; safeguard the organization's reputation; maintain marketplace and shareholder confidence; and retain and attract top talent. A strong ethical culture is fundamental to mitigating the risk of misconduct of all kinds, lowering the potential for financial fraud, and can have a positive impact on the organization's success.

Conversely, a weak or toxic culture can damage an organization in many ways. With that in mind, the board and management must not only set the proper tone at the top but also actively track and guide their organization's culture. As part of this effort, a wide range of tools can help them gather information from and about employees, identify people who demonstrate their culture, use performance goals and incentives to encourage the right behaviors (and discourage those that are undesirable), target and solve problems within the culture, and monitor observations about the organization. Internal and external auditors can also play an important role in evaluating culture and sometimes reporting on tone at the top. An initial culture assessment offers a baseline against which organizational leaders can benchmark future trends and efforts. It can also be used to identify the messages and behaviors the organization wants to reinforce and the people who can help achieve that goal. At the same time, management can design efforts to shift any negative elements of the culture in order to mitigate potential risks. The tools and techniques discussed in this paper provide a starting point.

Proactively evaluating culture can spotlight weak or problem areas that should be addressed. Identifying successful efforts to reinforce and enhance culture ultimately helps to attract or retain top talent. Organizations of all kinds can and should take this important step.
Resources

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Anti-Fraud Collaboration, Encouraging the Reporting of Misconduct (2017)

BDO, From Scandals to Serious Setbacks: How a Poor Company Culture Can Impact the Bottom Line (2018)


Deloitte, Building World-Class Ethics and Compliance Programs: Making a Good Program Great – Five Ingredients for Your Program (2015)


ECI, High Quality Ethics & Compliance Program Assessment Tool (2019)


EY, Governing Culture: Practical Considerations for the Board and Its Committees (2019)

EY, Five Ways to Enhance Board Oversight of Culture (2019)


Grant Thornton and Oxford Economics, Return on Culture (2019)

Grant Thornton, Auditing Culture – Making the Intangible, Tangible and Auditable (2016)

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KPMG, Board Oversight of Corporate Culture (2018)

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LRN, What’s the Tone at the Very Top? The Role of Boards in Overseeing Corporate Ethics and Compliance (2018)

NACD, Report of the Blue Ribbon Commission on Culture as a Corporate Asset (2017)

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61. Ibid.
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