# CULTURE AND CHANNELLING CORPORATE BEHAVIOUR

**Think Ahead**    **ACCA**

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## Introduction

In the wake of various high-profile cases of corporate misconduct in sectors and industries previously perceived to be well-governed and regulated, many observers have come to the conclusion that poor organisational culture was a significant root cause of much of the corporate wrongdoing.

Culture and the drivers of behaviour are now key issues for regulators, particularly of financial services organisations. The Financial Stability Board now expects bank supervisors around the world to assess financial services companies' risk culture, and their starting point will be boards' own assessments (FSB 2014). It is likely that boards in other sectors, private and public, will need to make similar assessments. Boards need better guidance; this study aims to assist, by identifying the leading corporate and academic thinking, and providing a practical and insightful framework to help you understand your own organisational culture.

ACCA has long considered that a key part of risk management should be the assessment of the control environment, including such aspects as culture and ethics (Davies et al. 2010).

ACCA believes that the human factor in organisations is central to understanding how they function. A firm can have what appears to be most sophisticated procedures and follow a code of governance, its success relies on the people within. People can make perfectly designed and executed systems fail but, equally, they can make poorly designed systems work actually rather well.

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Functional behaviour contributes to the creation of long-term, sustainable value for the organisation, and the majority of its stakeholders.

What is it then that drives individuals' and groups' behaviour? Rules and procedures can fail to result in appropriate corporate conduct, so what is it that motivates people to behave one way rather than another? Is it all about culture?

### Discussion of the problem: The ACCA–ESRC Project

Culture is a nebulous concept which is often misused. It is a vast subject to research and is one to which people devote a lifetime. In 2013 ACCA and the UK's Economic and Social Research Council (ESRC) launched research into this field with the overarching goal of understanding what causes dysfunctional behaviour in organisations. This project has generated much interest and enthusiasm within the business community, from all regions of the world. Understanding the interaction between culture, behaviour and business ethics is clearly high on the corporate agenda for business leaders, senior accountants and regulators alike.

## ❝ Decades of evolution of regulation and governance did not prevent organisations from failing and there is now broad agreement that a much more holistic approach is needed ❞

This concern is a very positive sign, but it seems driven by a widely held perspective that the largely regulation-and rules-based response to the financial crisis has somewhat missed the main problem. Many people with whom we engaged expressed despair with what they see as a general tendency to apply quick fixes and 'snake oil' to deep, complicated and often poorly understood behavioural issues.

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## Methodology

The project's methodology and evidence included:
• looking at a body of academic literature from different social science disciplines as well as reports and investigations into various scandals and corporate failures (ACCA 2014a)
• discussions with over 150 people with expert knowledge, from business, academia and regulatory organisations on five continents in roundtables and other meetings; participants included executive directors, chairmen and non-executive directors, internal auditors, risk managers, researchers from international organisations and board information consultants (ACCA 2014b)
• an online survey from among ACCA's global membership in April 2014, with close to 2,000 respondents giving their views on culture, leadership, incentives and motivation (ACCA 2015).

## Findings and Discussion: Highlights from the report

Understanding the interaction between culture, behaviour, ethics and performance is clearly on top of the corporate agenda for business leaders, senior accountants and regulators alike. Many people with whom we engaged expressed despair with what they see as a general tendency to apply quick fixes to deep, complicated and often poorly understood behavioural issues. There is now broad agreement that a much more holistic approach is needed; the purpose of this report is to practically contribute to the current debate over growing (and potentially legally binding) cultural assessment requirements.

### Culture isn't something you can grab

The conclusions of the ACCA–ESRC project all pointed to the elusive, idiosyncratic, and highly influential nature of corporate culture. The culture held by a group is a set of shared beliefs, norms and values that defines what is important and what is appropriate for individuals belonging to this group. Most of it is out of sight and one can only see the tip of a much bigger iceberg when attempting to assess it.

The main challenge is to obtain sufficient evidence and to do so one must move away from standard quantitative methods, appreciate the ambivalence of the subject, and make sensible use of a range of much more subjective approaches. Asking the right questions and looking at the set of trade-offs developed in this report will help boards in getting to know the culture of their organisation, ultimately driving change where it is most needed.

### Know the culture you want

To get to know the culture one organisation may want, the report suggests that boards start by asking themselves:
1 What are the goals and purposes of the organisation?
2 What sort of behaviours does it wish to encourage and discourage?
3 How is the 'tone at the top' set out and conveyed through the organisation?

These questions can help instigate a discussion in the boardroom, and beginning the process of cultural assessment.
Assessing culture should be seen as a journey of continuous improvement rather than an end in itself. The report advises boards to conduct a health check of their organisation's existing culture using a series of cultural trade-offs. They should then consider a series of actions they might take in order to reconcile the culture that exists with the culture that they want.

### Understanding the culture you have

Our investigations led us to conclude that there is no one size fits all when attempting to assess culture. Even within an organisation, different cultures may exist in different areas and teams. Any assessment should therefore be carried out distinctively at various levels of the organisation.

Finding what is optimum and most appropriate involves considering a series of inherent trade-offs such as about conformity and challenge. These can help map out the kind of culture an organisation wants and has.

They form a framework for discussion and by no means suggest that one end of a trade-off is better or worse than the other. Rather, the aim is to strike an optimum and appropriate balance.

### Cultural trade-offs for the Board to consider

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| Values as a wealth driver versus values as a protector | Boards could consider what sort of values they want to have and work with in order to ensure that these values are lived throughout the organisation. |
| Openness to mistakes versus zero tolerance | Boards could consider whether the organisation is open to hearing about mistakes and whether staff believe there is sufficient openness to constructive criticism. |
| Leadership versus followership | Boards could consider their own leadership style and find out how it is perceived throughout the organisation. How do the board and CEOs want to lead? |
| Conformity versus challenge | Boards could consider to what degree constructive challenge is encouraged in the boardroom, find out how cohesive teams are within the organisation and whether staff are able to challenge people above them. |
| Independence versus involvement | Boards could consider whether external directors are sufficiently independent in mind and sufficiently involved or engaged, and what steps could be taken to improve |

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| | genuine commitment. The size and composition of boards should also be considered in line with their actual operational and strategic requirements. |
| Enforcing versus avoiding or exploiting regulation | What attitude to regulation should an organisation have? Does it want to support and work with the spirit and the letter of regulation or does it see regulation as something to be avoided or exploited for its customers' interests or its own sake? |
| Common sense versus rules and procedures | Boards could consider how to get the right balance between allowing people to use common sense and introducing rules and procedures. |
| Empowerment versus rules and tight rules versus loose rules | Boards could consider how much empowerment and leverage is appropriate for different groups in the organisation (see also innovation and control). |
| Quantitative measures versus qualitative performance | Boards could consider whether measures used properly reflect the long-term aims of the organisation and whether they could easily get 'gamed' for personal interest. |
| Innovation versus control | Boards should be aware that control can stifle innovation. The need to encourage innovation should be balanced against the need to have control; they could consider what sort of innovation they want, where it is needed, and what sort of control is appropriate. |
| Risk seeking versus risk avoiding | How clear is the board about why its members want or allow their organisations, and the teams within them, to take risk? What is the appropriate balance between risk and reward? |
| Trust versus accountability | Attempts to increase accountability can erode trust as people who are made more accountable may feel less trusted. Boards could consider whether existing accountability systems undermine trust and what could be done to improve trust. |
| Profit versus public value | Boards could consider whether they think they have the right balance between making profits and contributing to public good and whether they are anticipating changing societal expectations sufficiently. |
| Human capital versus human cost | Boards may want to consider how the economic austerity will affect how new talents can be attracted and flourish within the organisation. |

**Take actions to reconcile what exists with what is desired**

As boards health-check the culture prevalent in their organisation, they can take various actions to help reconcile what they have with what they desire:
• Align and embed core values at the very top.
• Watch out for the trickle-down effect and dynamics in groups.
• Track how decisions are being made.
• Be honest about the value of regulation and codes.
• Beware of unintended consequences attached to any incentives structure.

• Find out what motivates people.
• Anticipate trends.

**Conclusion**

The first step towards assessing culture should be to determine what sort of culture an organisation wants. Attempts to understand how well its culture is working for the organisation should then inform decisions about whether changes are necessary, and help identify where potential problems may arise.

Assessing culture is difficult because it is nebulous and defies objective measurement. Culture is not something you can grab and, at best, one can only see the tip of a much bigger iceberg. Culture is a dynamic phenomenon and any attempt to measure it can result in catching only half the picture. To illustrate this, one roundtable participant referred to the Heisenberg's uncertainty principle: position and momentum of particles are two variables that cannot be measured simultaneously; in other words he said, 'the more you measure something, you pinpoint it, the less you know the direction of it', and this analogy can also be applied to culture.

Therefore, the main challenge in assessing culture is to obtain sufficient evidence and to do so one must move away from standard quantitative methods, appreciate the ambivalence of the subject, and make sensible use of a range of more subjective approaches. Asking the right questions and looking at the set of trade-offs highlighted in this study will help boards in getting to know the culture of their organisation, ultimately driving change where most needed.

> **" Culture is not something you can grab and, at best, one can only see the tip of a much bigger iceberg "**

A more comprehensive cultural assessment can be achieved in a variety of ways. These include surveys, meetings, seminars, workshops, interviews, audits and consultancy investigations, and each of these main approaches can be carried out in various ways. These main approaches are better used in combination than on their own. The Institute of Risk Management has published (2012) a booklet of resources for assessing risk culture, which sets out several frameworks and approaches. The Institute of Internal Auditors has published (2014) guidance on the role of internal audit in auditing culture.

# " *A more comprehensive cultural assessment can be achieved in a variety of ways* "

It should be remembered that there is no absolutely true or 'right way' to assess culture. Attempts to manage culture themselves are difficult to prescribe – there is no guarantee that they will work, and any benefits may be slow to emerge or take root, and indeed, unintended consequences are a constant risk. It is hoped that this report will help boards and others avoid some of the potential pitfalls and help them on their journey towards evaluating and improving their own organisation's culture.

### Areas for further research

The study reported here, alongside the other related reports in the suite, form phase one of what is intended to be a two-phase research project. The nature of the second phase has yet to be determined but will be informed by the findings of the first phase, and will delve more deeply into a particular area of this research.

The effects, positive and negative, of performance management systems and the measures used within organisations are areas worth further study.
Other areas where further insights are required include:
• the effectiveness of whistle-blowing or speak-up arrangements and whether staff believe they are safe using them
• leadership and how leaders influence the character of organisations, both positively and negatively.

There also seems to be a clear need for the business and academic communities to work together to understand how much more effectively people can be motivated in the 'real' world.

Two further areas were touched upon from time to time during the roundtables and other discussions that would seem to merit further attention. The first is about leadership and the 'personality' of organisations and the people who work in them. Organisational life has become dominated by metrics and compliance and other requirements that have to be met. The imperative is to perform or to comply or both.

The second is about time: partly thanks to the IT and internet revolutions, the pace of change in organisations is quicker than ever. The two combined help to create a mindset where there is little scope for reflective thought about the role of organisations and individuals in society. Possible research questions include whether it is possible to have high performing cultures that are also visionary, or whether the desire to drive performance and having an inspiring vision are mutually exclusive, and whether more room should be found in organisational life for reflective thinking. Relating to this question is whether organisations which have a vision that includes playing a positive role in society can be high performing.

Research could reveal more general information about different, possibly better, ways of running organisations.