



Assessing Ethical Culture

IIA Calgary Chapter

November 16, 2022



Wherever business takes you

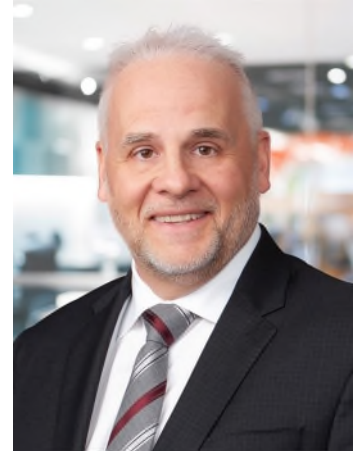
[MNP.ca](https://www.mnp.ca)



Today's Presenter – Robert Kuling



- Leads MNP's Enterprise Risk Services practice in Saskatchewan
- +30 years of senior leadership and consulting experience
- Helps organizations develop internal audit, risk management, financial compliance, governance, and regulatory requirements
- Developed leading edge practices for audit and compliance groups including planning, risk assessment, value-for-money, analytics, program evaluation, talent strategies, quality, corporate culture, fraud/ethics, and performance reporting.
- Former Deloitte partner and Chief Audit Executive at major organizations (e.g.Tervita, Viterra, TransAlta and Precision Drilling)
- Internationally recognized leader with the Institute of Internal Auditors (IIA) serving on the Global Board and Chairman of the North American Board
- National spokesman for the internal audit profession with regulators, professional groups, training firms, and government organizations
- Globally recognized training provider for appraising corporate culture



Robert Kuling

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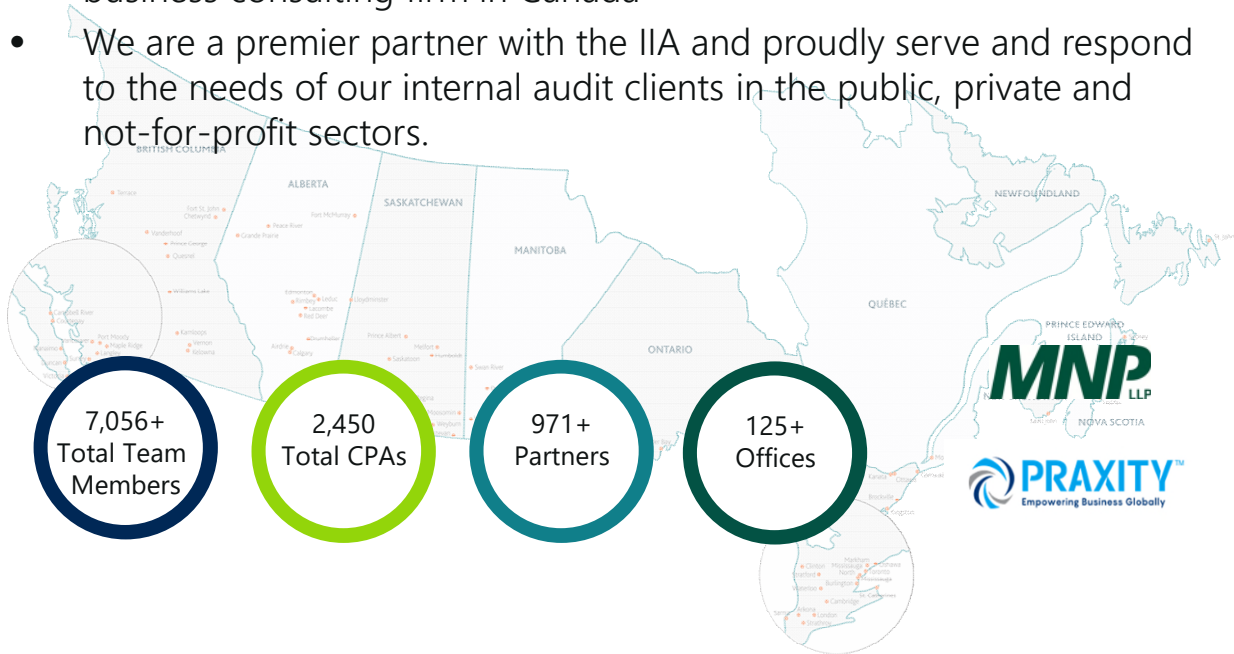
MNP : Who Are we?



Our Values

At MNP, we pride ourselves on our values, which we are reminded of daily on our desktops. Our values ring true to the team members and Partner of our firm.

- Founded in 1958, we are the 5th largest national accounting and business consulting firm in Canada
- We are a premier partner with the IIA and proudly serve and respond to the needs of our internal audit clients in the public, private and not-for-profit sectors.



 One Firm	 Guidelines	 Integrity
 Client Service	 Lifestyle	 Respect
 Quality	 Fun	 Diversity & Inclusion
 Canadian	 Entrepreneurial	 Community



Learning Objectives

- Understand the principal elements of culture
- Explore creative tactics and strategies for analyzing an organization's culture
- Understand the characteristics of a strong ethical culture



Elements of Culture



Polling Question #1

What is the size of your internal audit function (including co-sourced full-time employees)?

- 1
- 2 to 5
- 6 to 10
- 11 to 15
- 16 to 25
- 26 to 50
- 51 to 100
- More than 100
- Not applicable/not sure



Elements of Culture

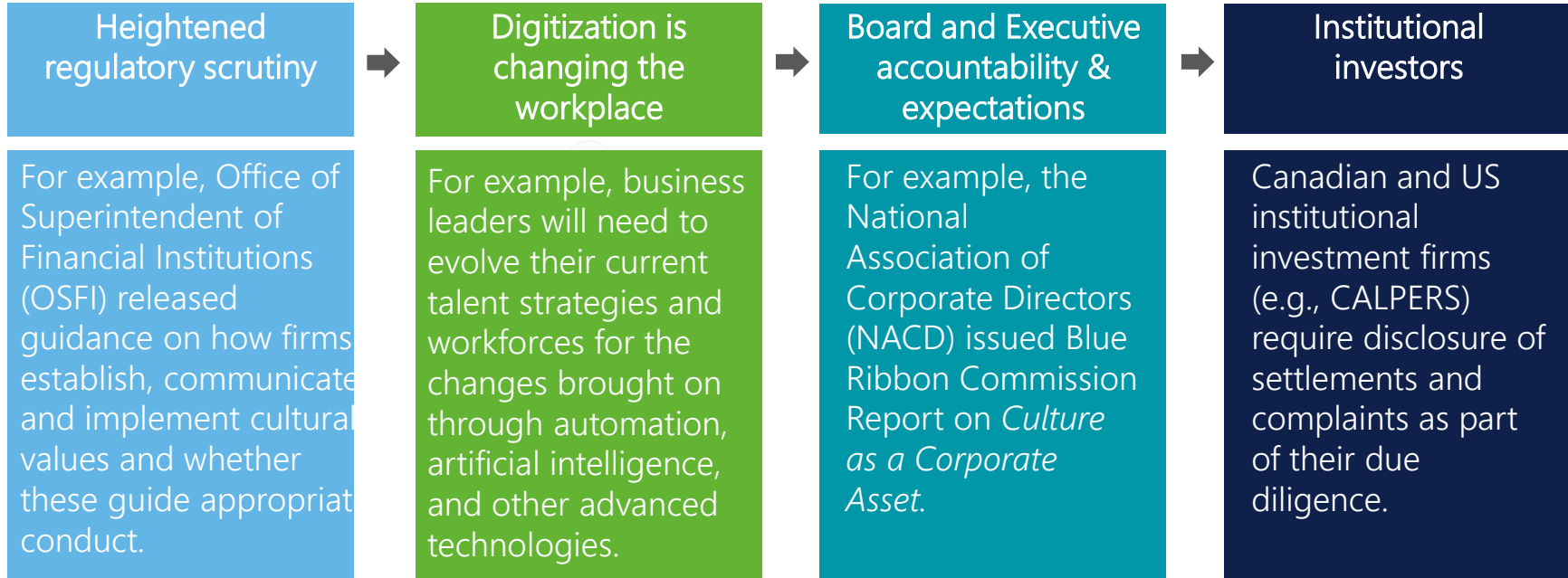




Why is Culture Important

- Constantly ranked as a “top risk”
- Profound impact on the organization
- Relevant to any type of organization
- Competitive advantage
- Generally the root cause of corporate scandals
- Biggest determinant of how employees behave consciously and subconsciously, internally and externally
- Influenced by history, environment, structure, tone at the top and management styles

Market Factors driving attention to Culture **MNP**



Culture versus Conduct

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, behaviours, and decisions of these individuals.

*Oliver Wyman
Measuring Conduct and Culture:
A How-To Guide for Executives*



Culture and Engagement

CULTURE

The way things work around here

- Behaviors aligned with strategy.
- Includes values, beliefs, behaviors, artifacts, and reward systems influencing behavior.
- Driven by top leadership and is deeply embedded in processes, reward systems, and behaviors.

*Culture predicts
Company performance*

ENGAGEMENT

*The way **people** feel about the way things work around here*


- Way of describing employees' level of commitment.
- When engagement is poor, employees feel uneasy or uncommitted.
- Declining engagement leads to decline in productivity.

Engagement predicts Individual performance

LEADERSHIP

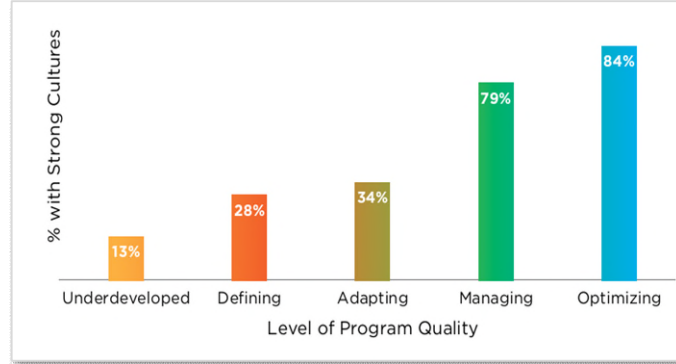
The driving force behind setting and maintaining culture and engagement via modeling behaviors and expectations for the workforce

High Quality E&C Principles

Principle 1	Principle 2	Principle 3	Principle 4	Principle 5
Ethics and compliance is central to business strategy	Ethics and compliance risks are identified, owned, managed, and mitigated	Leaders at all levels across the organization build and sustain a culture of integrity	The organization encourages, protects and values the reporting of concerns and suspected wrongdoing	The organization takes action and holds itself accountable when wrongdoing occurs
				

Corporate Culture – The Rocket Fuel

- The higher the program quality, the stronger the culture
- Organizations with high-quality programs (shown here as optimizing) demonstrate a 546% increase in culture strength over organizations with the lowest level of program quality.

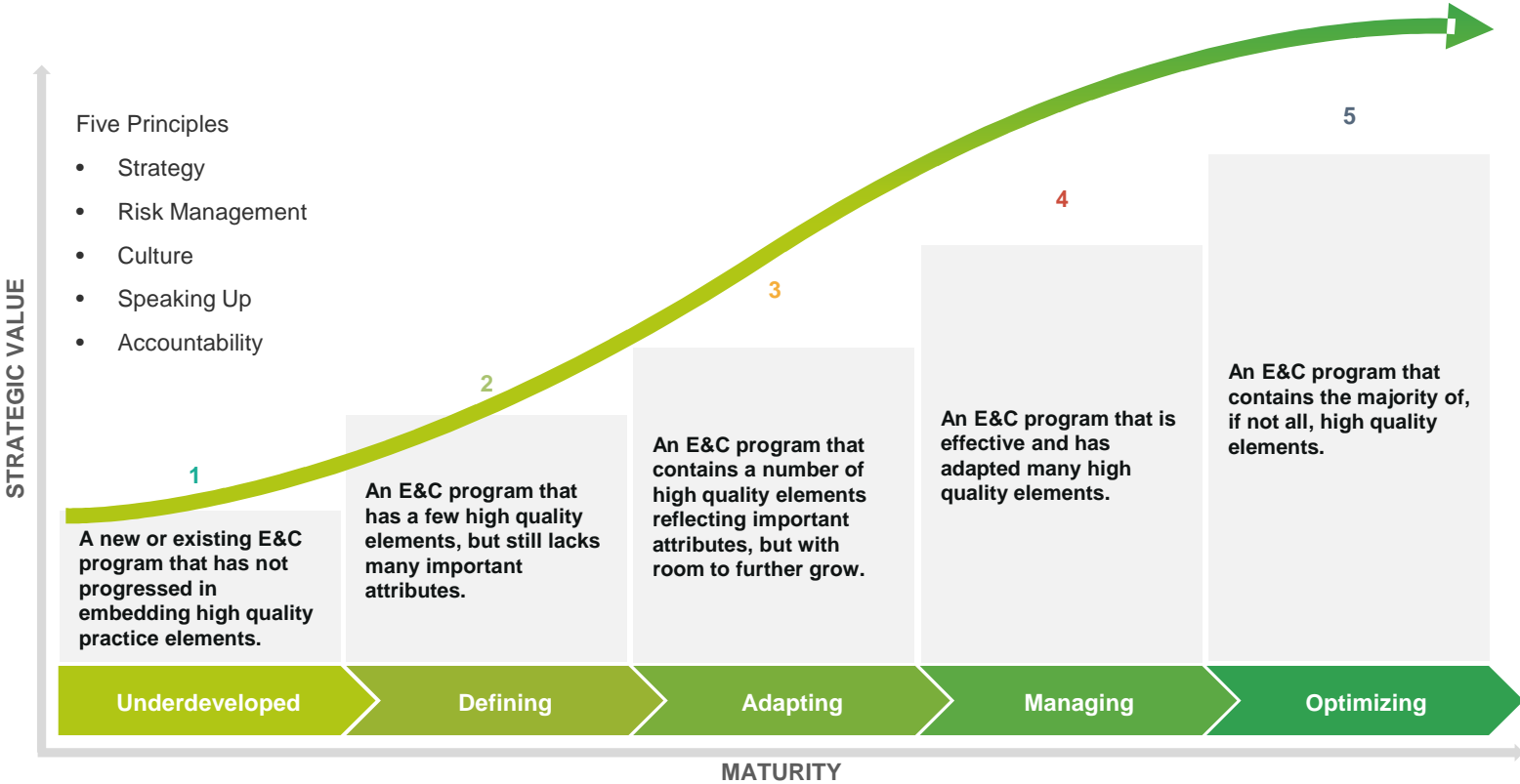


Corporate Culture – The Rocket Fuel

- As the culture strengthens, employee conduct improves.
- Organizations with strong cultures are **467%** more likely to demonstrate positive impact on employees than organizations with weak-leaning cultures (adherence to values, handling of key risks, reporting wrongdoing, and reduced overall misconduct).



E&C Program Maturity Model



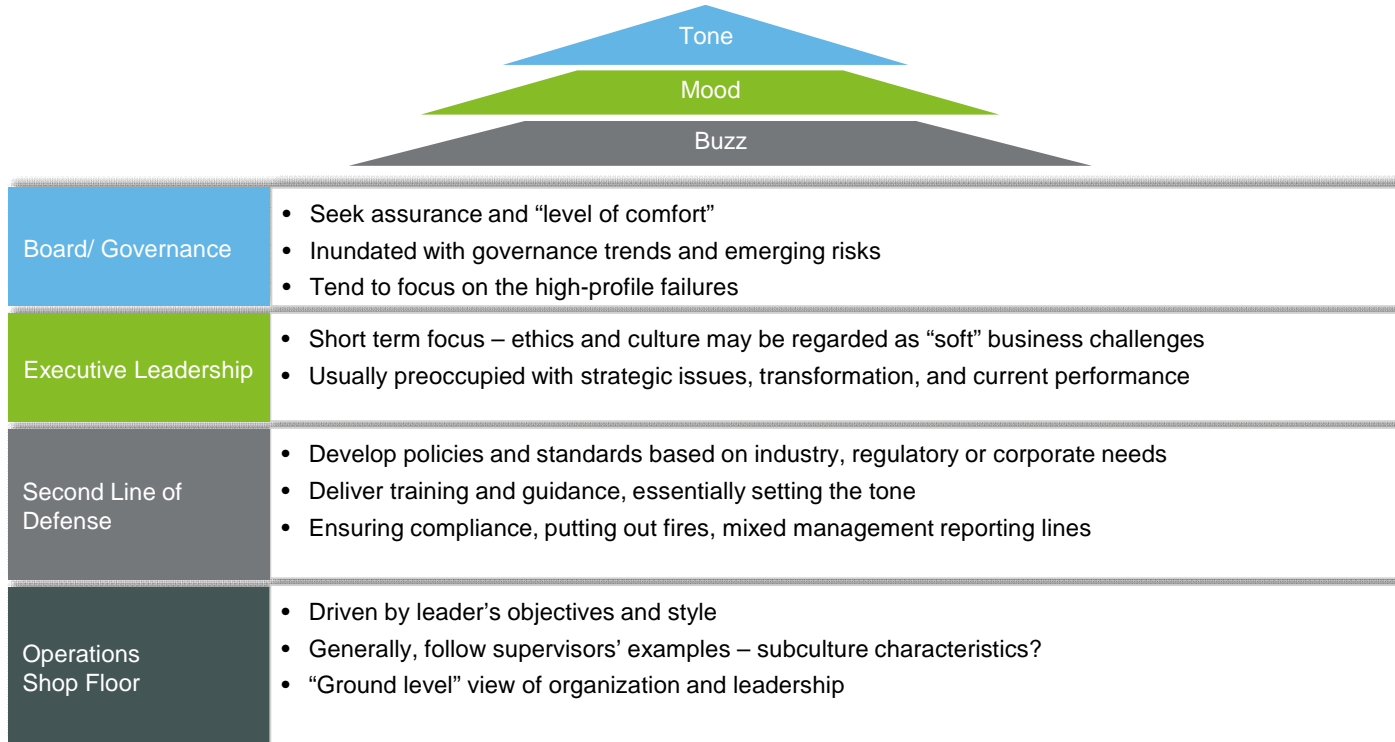
Polling Question #2

Based on the E&C Maturity Model described, what would you assess your organization's level to be:

1. Underdeveloped
2. Defining
3. Adapting
4. Managing
5. Optimizing



Multiple Layers of Stakeholders



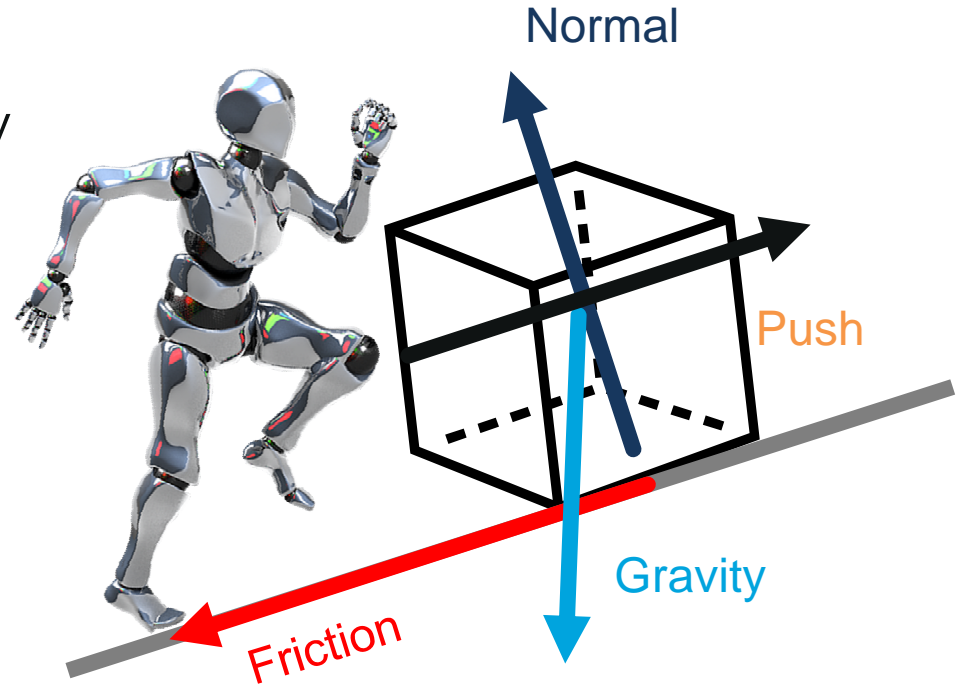
Navigate the Corporate Jungle Functional Behaviors

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Cultural Artifacts

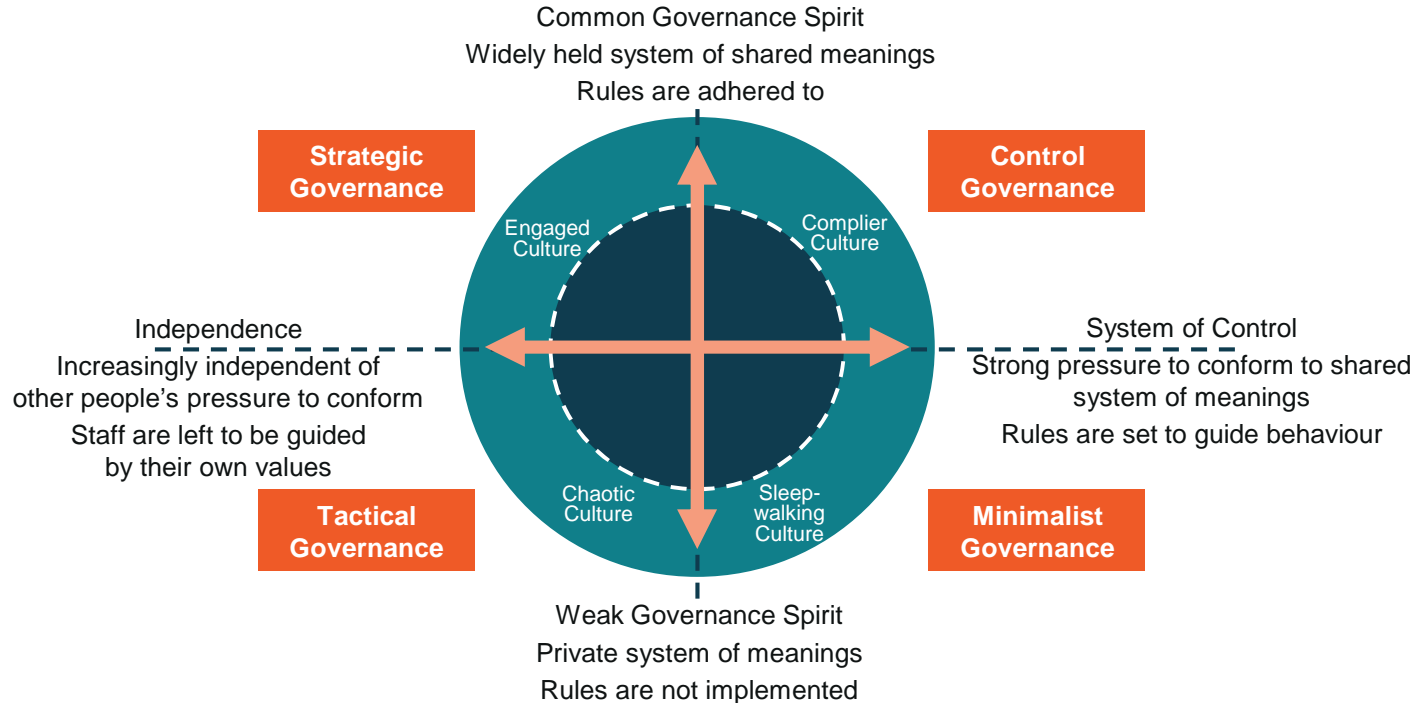
- Specific behaviors and norms
- Powerful predictive capability
- Intangible asset or liability
- Massive components of culture



Tactics and Strategies to Appraise Culture



Cultural Assessment Model



Considerations for your Approach

Consider the following questions as part of the annual internal audit risk assessment to determine and understand the elements and the overall maturity of your organization's culture:



Does the company have a **defined culture**? If so, what words can be used to describe the company's culture?



If the company has a **mission statement and/or value statement**, how well is it/are they communicated among employees?



What methods does the company utilize to **understand the company's culture**? (surveys, conduct monitoring, risk sensing, etc.)



What activities does the company engage in to **reinforce the tone at the top**? (code of ethics, communications, training, etc.)

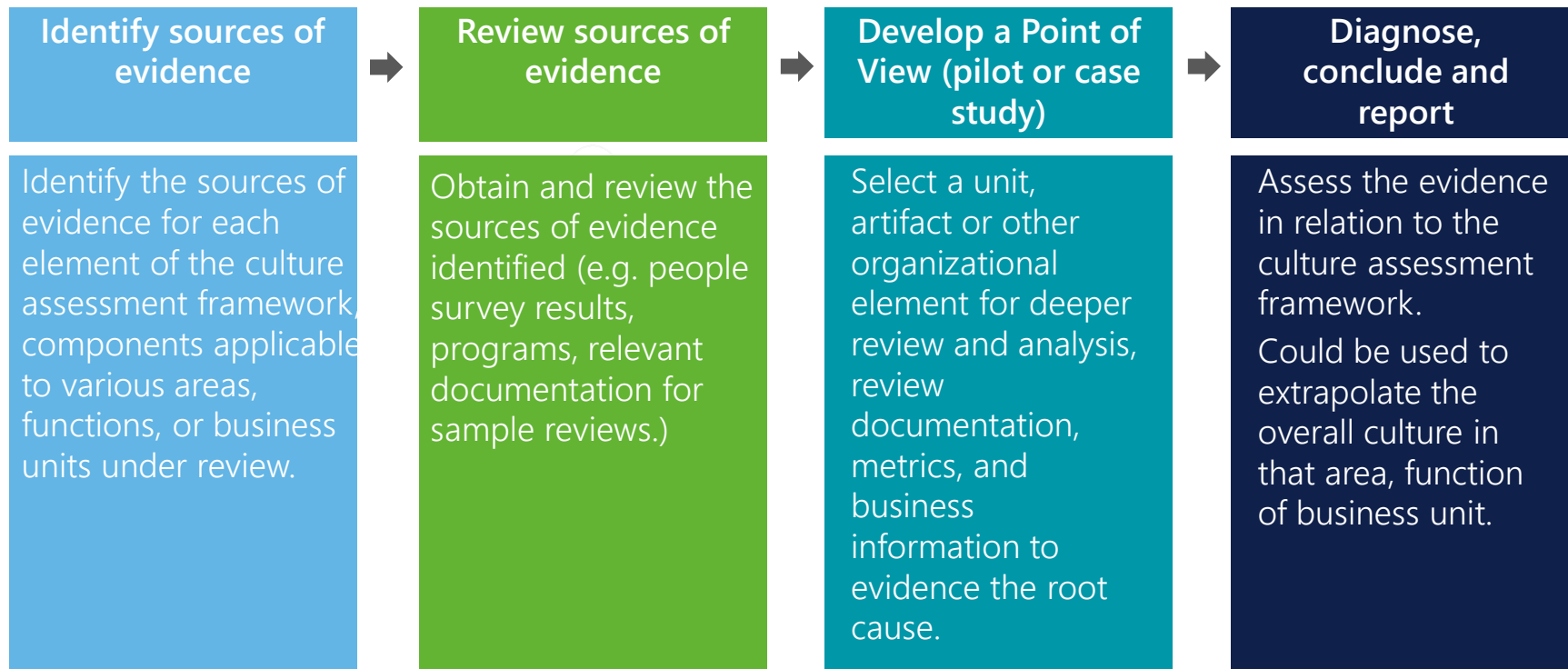


What channels to raise issues and concerns are available to employees and other stakeholders (e.g., speak up mechanisms, hotline)?



Who leads or drives these practices?

Culture Specific Audits



“Bolt on” Audit Approach (cultural insight)

Ongoing audit observations

Part of audit planning, fieldwork and reporting, observe examples of individuals' behaviours, actions and attitudes that may be examples of desired or undesired behavior:
(e.g. lack of commitment from staff to respond to audit requests)

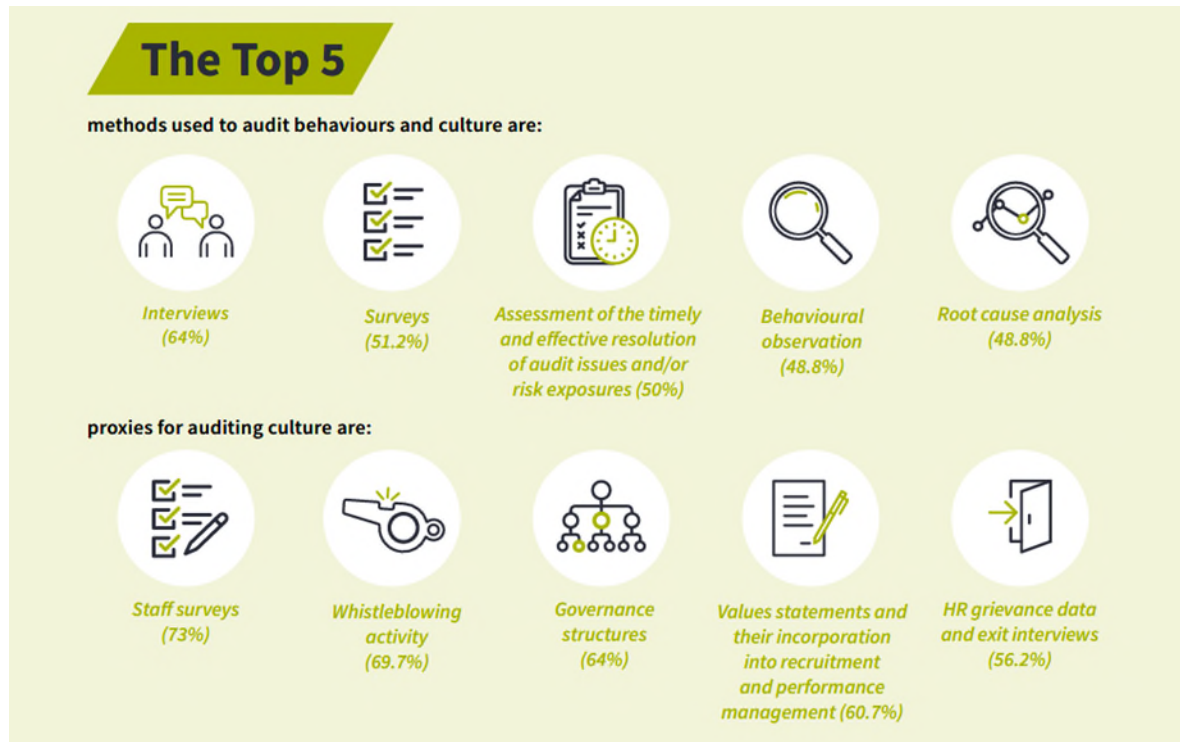
Root cause analysis

Carry out a root cause analysis for each of the findings identified as part of your audit work using a “culture lens.”
Consider impact of inadequate actions or behaviours of employees as potential primary or secondary causes; provide rationale for your decision.

Diagnose, conclude and report

At the end of the audit work, consider all the information gathered as part of the audit and provide insights on the overall culture (in line with the culture assessment framework components).
Provide rationale for your finding including examples observed.
Note: Specific questions to assess culture can be designed and included in all audits.

Top 5 Methods and Proxies



Polling Question #3

In your organization, which is the most feasible strategy to appraise corporate culture:

1. Planned project(s) on the IA plan
2. Bolt onto planned projects
3. Through an "entity-level" assessment (e.g., SOX compliance)
4. Partnering with a second line of defence function (e.g., Human Resources)
5. Recent response to a major breakdown
6. Forget it – too much hassle!!



Characteristics of Strong Ethical Culture

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OECD Model of Ethical Culture

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.¹⁴

QUALIFIERS	VS	DISQUALIFIERS
Organizational trust		Organizational unfairness
Ethical leadership		Abusive manager behavior
Benevolent orientation		Selfish orientation
Empathy		Lack of awareness
Efficacy and speaking out		Fear of retaliation



Source: Global Business Ethics Survey, ECI, 2020

Psychological Health

- aka - Psychological safety
- Emerging area of focus and research
- Culture eats training for breakfast
- Pandemic effects on workforce productivity are significant - statistics on mental health are jarring (depression, burnout, etc.)
- Challenge is visibility and exposure without message fatigue
- Creativity is needed here– entertainment is helpful



Culture Lens – Misconduct Risk

Externalities refers to the impact of employee misconduct beyond the individual and even the organization.

Adverse selection occurs when those particularly ill-suited for something are the most likely to participate.



Principal-agent problems occur when the incentives of employees don't align with the broader interests of management or shareholders.

Source: <https://hbr.org/2018/03/the-economics-of-why-companies-dont-fix-their-toxic-cultures>

Global Business Ethics Survey, ECI 2021

The Good News



- Slightly more than one in five US employees were in workplaces with a strong ethical culture (one in four in 2009). Largely unchanged over the past 10 years.
- Employees who observed misconduct in 2020 were more likely to report their observation than they did in 2017 (86% vs. 69%).

The Bad News



- More pressure on employees to compromise their organization's ethics standards (e.g., to "bend the rules") was at the highest it has been since 2000 and doubled since 2017.
- Rate of observed misconduct slightly increased in 2020 and has remained largely steady.
- Employee perceptions regarding retaliation after reporting misconduct is the highest it has ever been – doubled since 2017.

Corporate Culture is under Pressure

	MOST COMMON TYPES OF OBSERVED MISCONDUCT—U.S.		
	2017	2020	PERCENTAGE POINT CHANGE SINCE 2017
Observed favoritism toward certain employees¹⁶	--	35%	-
Observed management lying to employees	21%	25%	+4
Observed conflicts of interest	15%	23%	+8
Observed improper hiring practices	12%	22%	+10
Observed abusive behavior	21%	22%	+1
Observed health violations	15%	22%	+7

Source: *The State of Ethics & Compliance in the Workplace: A Look at Global Trends (ECI, 2021)*

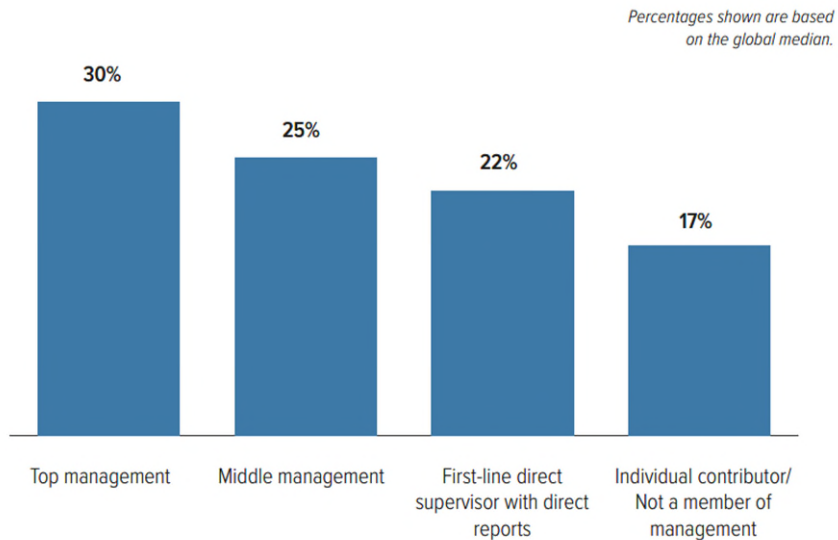
Polling Question #4

Which organizational level is the most pressured in your organization to “bend the rules”?

1. Board of Directors
2. Executive Management
3. Middle Management
4. First-line direct supervisor with direct reports
5. Employee – front line



The Incidence of Pressure Was Almost 2X as High Among Top Management Compared with Individual Contributors



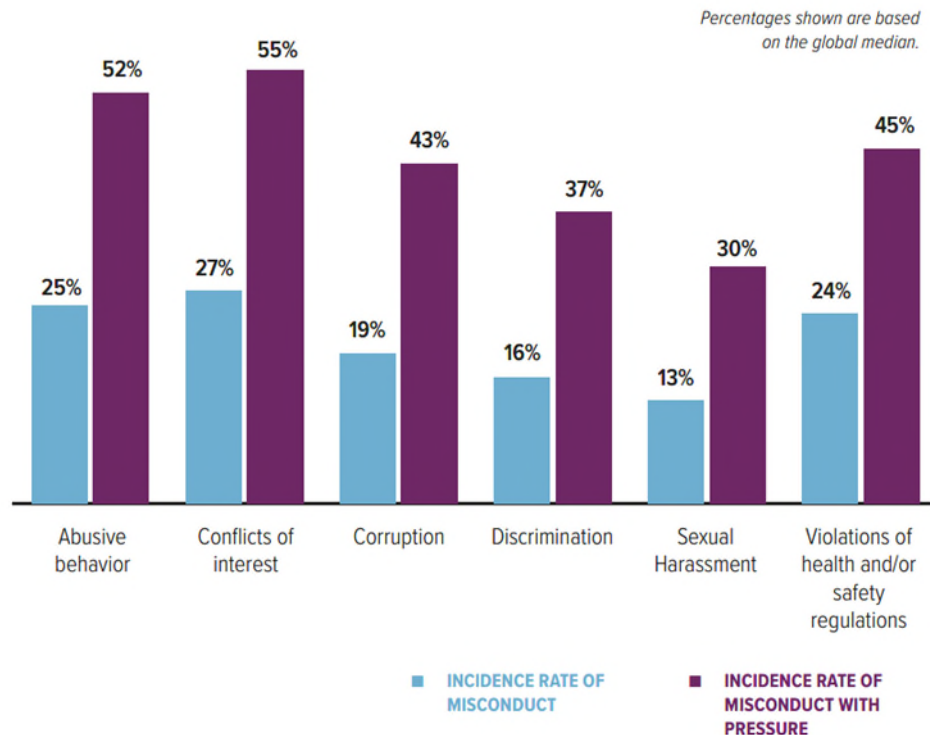
Polling Question #5

Which of the following six specific types of misconduct is your organization most at risk for?

1. Abusive behaviour
2. Conflicts of interest
3. Corruption
4. Discrimination
5. Sexual harassment
6. Violations of health and/or safety regulations



Employees Who Feel Pressure Are About 2X as Likely to Observe Various Types of Misconduct



Mandate for Internal Audit

- Cultural appraisal is high value for internal audit
- Aligns internal audit priorities with the organization's principal risks
- Builds reputation of internal audit as a savvy business advisor (builds a high level of trust)
- Continually surveil key metrics and controls that might raise flags (includes continuous auditing and/or data analytics to high-risk areas)
- Build constant communication lines with the second line (air cover support to help them)
- Deliver culture-related assurance and advisory services (e.g., pulse checks, ethics training)
- Contribute to a combined assurance approach (assurance mapping and facilitate coordination)

Final Thoughts & Questions?

