

Auditing Your Organizational Culture

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They are possibly eight of the most nerve-racking words that can be uttered in the presence of internal audit personnel: “We are going to conduct a culture audit.”

Internal auditors, whose careers revolve around audits focused on sets of risk within given processes, cannot be faulted for cringing at the thought of now having to turn their attention to factors with broad scopes that involve behaviors, thoughts and actions that cannot necessarily be quantified. More daunting is the fact that this type of audit is closely intertwined with potential conduct risk from a host of individuals.

The culture audit encompasses all aspects of the organization’s subjective values and observable personnel conduct to review exactly how management’s tone impacts personnel behavior and actions. These actions can greatly affect operations, reputation, relationships and financial outcomes, playing an integral part in the organization’s potential for future success. Although culture is a challenging subject to tackle, the potential benefits are clearly worth the effort. As AuditBoard notes:

Workplace culture is viewed as one of the most critical factors for predicting overall success. A cultural audit is important because it allows an organization to assess the current state and take corrective actions before unacknowledged cultural issues derail its success...A culture audit can help management address [negative] issues like toxic management, race and gender discrimination, low morale, high absenteeism, low productivity, and high turnover.¹

So, how does an internal audit team conduct a culture audit, especially when the subjectivity of culture can take auditors out of their comfort zones? Although there is no one-size-fits-all approach, internal auditors familiar with the Committee of Sponsoring

Organizations of the Treadway Commission (COSO) framework for evaluating internal controls can draw on experience gained from processes used to assess aspects of the organization’s control environment, including:

- Exercising integrity and ethical values
- Making a commitment to competence
- Facilitating management’s philosophy and operating style
- Assigning of authority and responsibility
- Utilizing human resources policies and procedures

Interviewing and direct observation require an increased focus when conducting a culture audit, often including the use of anonymous surveys to understand organizational culture through the eyes of stakeholders and personnel. These are routinely acknowledged as the most effective and efficient means of evaluating organizational culture and gaining insight into how involved individuals perceive entity values.

Internal audit results provide an outline that sheds light on trends and potential issues to be reviewed in the fieldwork audit phase. At the same time, this prework phase is when management’s stated culture can be documented. The internal audit team should review a broad range of formal documentation such as mission and vision statements, codes of conduct, hotline and whistleblower policies, disciplinary action protocols, wage and pay equity policies, and incentives and benefits policies. Although the individual results may paint a cluttered picture, when put together and compared to the results of surveys, interviews and observations, resulting discrepancies can point to larger trends and, ultimately, lead to root causes of issues.

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Although not every organization places such a strong emphasis on culture, a culture audit nevertheless should be concerned with whether the organization's goals related to the positive impact of culture are being realized.

Although policies are necessary and important, the focus of a culture assessment must begin and remain with the tone set at the top. By gaining an understanding of how senior managers, middle managers and rank-and-file personnel interact, organizational tone can be understood at a higher level. A 2019 research paper focusing on auditing culture notes that "culture is a key contributor to corporate performance, both positive and negative," and:

The culture of an audit firm is most oriented toward quality if leadership emphasizes professionalism over commercialism, promotes ethical judgments, and facilitates learning through systems, integration of specialists, and interpersonal interactions. Leadership should implement, through organizational tone at the top, a culture guided by professionalism.²

Findings should be reported for review with the knowledge that a coherent culture's foundation lies in shared beliefs and values that shape behavior at all levels. However, an organization's culture can differ across regions, states or even organizational departments. What works effectively for one group may not work for others.

Making the Case

Despite culture occupying such a high level of importance with regard to both short- and long-term organizational success, the Institute of Internal Auditors' 2021 North American Pulse of Internal Audit found that a scant four percent of audit effort was being allocated to governance and culture. It is logical to question whether internal audit can positively affect an organization's culture when such an overwhelming percentage of its time is spent focused on operations, finances, IT, cybersecurity and fraud. A greater emphasis must be placed on culture being added to internal audit's workload, but that may require some convincing as it relates to the feasibility and perceived benefits of a culture audit effort.

In some cases, organizations may believe their internal audit function lacks the capability to complete an effective culture audit. If that is the case, there is the option of hiring a service provider. Throughout the past two decades, the industries of external audit and consulting around enterprise culture have boomed and now provide numerous options for leveraging outside expertise to lead or contribute to a culture audit. These specialists excel at uncovering, assessing and articulating an organization's culture.

However, it is more likely the case that an organization believes that its culture is already strong and prefers to eschew the time, manpower and financial expenditure necessary to complete the long and comprehensive process, instead focusing on the same areas where 96 percent of effort is already spent. In such cases, it is possible that management holds too narrow a view of what constitutes an assessment of organizational culture. Management may be inclined to think of a culture audit as way to make sure the enterprise culture is not putting the organization's goals at risk. In other words, executives adopt a negative view of the audit as seeking to ensure that there are not red flags such as bad behaviors, counterproductive attitudes, unwritten rules that are offensive or exclusive, or anything illegal or unethical. However, that is only one aspect of the culture audit.

At some organizations, culture is carefully crafted and is expected to be a positive contributor to the organization's reputation, employee satisfaction, employee engagement and the bottom line. Zappos is one example of an enterprise with a carefully crafted culture that it perceives as integral to its success. The Zappos culture focuses on empowerment, creativity and rejecting traditional hierarchy. Its website states:

We believe that if we get the culture right, then most of the other stuff—like delivering great customer service or building a long-term enduring brand or business—will be a natural byproduct.³

Although not every organization places such a strong emphasis on culture, a culture audit nevertheless should be concerned with whether the organization's goals are being realized at least partially through its culture.

At the same time, internal audit should convey to management that it is not bound by preconceived ideas about what is or is not a good culture. There are some universal red flags, such as verbal abuse, but



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the difference between good and bad culture is not always black and white. For example, SpaceX's Chief Executive Officer (CEO) Elon Musk sent an email on a Friday in late November 2021 reportedly warning employees:

...that the situation at the company was dire, and that he needed everyone (himself included) back at work, and that if they wanted SpaceX to avoid bankruptcy within the next year or so, they'd need to show up, pitch in, and turn things around, fast.⁴

Management's communication style should be a core aspect of any culture audit. In the SpaceX case, although the alarming tone and timing of such a message may be considered a red flag from a cultural perspective, there are some employees who thrive working under pressure with a sense of urgency—at least for a certain period of time. Therefore, it is up to internal audit to evaluate such a message while considering context.

Increased focus on workplace culture affords organizations greater leeway when hiring, resulting in increased interest in open positions and the ability to more effectively match candidate qualifications with specific position needs.

Efficiencies may also be uncovered in the culture audit, which may be appealing to management. Some organizations adopt a more is better approach to culture-focused initiatives. However, as with any other business initiative, there is the possibility that, over time, activities no longer have the desired effect or are no longer relevant to the current reality. When that happens, internal audit can help to identify activities or initiatives that should be considered for discontinuation, potentially resulting in quantifiable savings in work hours and money.

Regardless of the initial thought process, cultural audit importance cannot be dismissed. As one author notes:



Despite your company's size or industry, culture matters. There will never be a 'good' time to conduct an audit, but putting it off will only perpetuate internal problems and stifle your growth potential. Ignoring an issue doesn't make it go away.⁵

New Employees and Recruiting Talent

Although much of a culture audit's focus is rightfully centered on evaluating current employees throughout all levels of the organization, another area of great importance is determining how culture may impact hiring new talent. In an age when the Internet can play key roles in making or breaking an organization's image, it is vitally important to promote strong cultures both within the organization and outside of it. Candidates have instant access to social media posts containing employee reviews and can easily contact people they know who work at the organization with a quick text or call. With a candidate-friendly market, recruiting and retaining new talent ahead of competitors can hinge on a strong organizational culture that promotes sustained organizational success through a clear identity, brand and employment image.

Millennials are the driving force of current workplace changes. They often seek strong culture above all other factors. Organizations lacking in this area are in danger of losing talent to competitors. An author states: "If you don't have a strong or appealing company culture, you're going to start losing the recruiting war—and fast."⁶

Focusing on culturally consistent and desired behaviors that are reinforced throughout the organization (and attested to by current employees), makes talent acquisition easier. Increased focus on workplace culture

affords organizations greater leeway when hiring, resulting in increased interest in open positions and the ability to more effectively match candidate qualifications with specific position needs.

Lastly, the overarching enterprise culture can play a critically important role with new hires once they are onboarded. By promoting an inclusive, vibrant and forward-thinking focus throughout the organization, the newest personnel can become more empowered to positively drive innovation, product and service growth, customer and vendor relations, and financial results.

Organizational Financial and Retention Impacts

The touchstone *Return on Culture* study conducted by Grant Thornton LLP and Oxford Economics was based on survey data from 1,000 professionals from US enterprises with revenues between US\$200M and US\$5B. The study states that:

- Executives who say their culture is extremely healthy are 1.5 times more likely to report average revenue growth of more than 15 percent over three years.
- Among public enterprise survey respondents, those with extremely healthy cultures are nearly 2.5 times more likely to report significant stock price increases over three years.⁷

The survey goes on to correlate positive organizational culture with decreased employee turnover. Forty-five percent (compared to 29 percent overall) of respondents who deemed their organization's culture as extremely healthy were likely to remain with the organization for more than six years. In addition, 49 percent of respondents stated that they would leave their current positions for lower-paying jobs with organizations possessing better cultures.⁸

Conversely, toxic workplace cultures can have a significant impact on the organizational bottom line. In organizations where employees are disgruntled, examples of underachievement abound, trust is virtually nonexistent and high turnover is the norm. The book *Dying for a Paycheck* states that "toxic workplaces and job stress cost US employers more than US\$300 billion every year in the United States."⁹

Conclusion

Those who dismiss the importance of conducting a culture audit can no longer base their claims on lack

of industry knowledge about the practice. Studies such as *Return on Culture*¹⁰ have provided empirical evidence to support the theory that the health of an organization's culture has a measurable effect on the success of the enterprise. Indeed, sooner or later, an organization will be questioned on whether or not it demonstrates ethical behavior; promotes a fair, diverse and inclusive workplace; and acts in a way that is consistent with its stated values. It is much better for the organization to ask these questions of itself and answer them via internal investigation than to wait until external parties broach the topic.

Endnotes

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