Auditing culture

Making the intangible, tangible and auditable

Auditing culture

In order to succeed, organisations need a business strategy which includes both 'what' the organisation is seeking to achieve, but also 'how' it is going to achieve it – its culture. This then needs to be consistently deployed, actively managed and owned. An audit of culture provides assurance of both design and operational effectiveness across the organisation and adds tangible value to leadership teams and boards.

Culture is a prominent feature for the Chartered Institute of Internal Auditors (CIIA), which requires the internal audit function to consider including a cultural review of the organisation within its plan of activities. This includes assessing whether business activities, behaviours and 'tone from the top' properly reflect the values, ethics, risk appetite and policies of the organisation.

To really deliver on business goals in an environment of increasing economic pressure and political uncertainty, the CIIA requirements give a useful pointer to culture as a driver for success - the basic reality is that poorly managed cultures lead to poor customer and business outcomes.

Audit functions add value to both the audit committee and the board by giving insight into how the organisation can take what is perceived as abstract and give it structure, tangibility and an actionable report.

The business strategy of the organisation should define both what the organisation is aiming to achieve and how they will achieve it. It is the 'how' that plays into the culture space and to which we as the auditors, look at in terms of checking alignment across the business. It is the lack of alignment where cultures come unstuck – where employees, customers or shareholders can see inconsistencies across either parts of the business, or particular functions. It is these inconsistencies that can hinder the overall achievement of business goals.

The outputs of an audit help an organisation understand, area by area, topic by topic exactly where they are, therefore enabling culture strategies to be clearly understood, and structured action plans developed. Audits also add value in the midst of cultural change by providing comfort that investment is being made wisely.

The culture of an organisation has constituent parts, it can be broken down, articulated and can therefore be measured. Measurement demonstrates alignment and proactive management of the outcomes can help firms achieve their business strategy. Academic studies have proven that engaged staff lead to engaged customers, leading to contented shareholders. Culture is also a clear differentiator in the attraction, retention and development of key talent. Organisations who chose to pro-actively manage their culture are starting to recognise this and so do the CIIA.

"Assessing culture is a challenging area, the Grant Thornton team brought great insight, experience and empathy to their approach. They addressed the tangible and intangible aspects of culture and their approach was well received by the business. The quality of their work was outstanding and has been valuable to us. The team was extremely high calibre and I was comfortable having them engage with the CEO and Executive team."

Jason Davies, Chief Audit and Risk Officer, Tesco PLC

Understanding, maintaining and changing culture

In the absence of active management, a culture will develop which may not align to the aims of the overall business.

It is often felt that culture is intangible and therefore there is little an organisation can do to create or amend culture. However the culture of an organisation should not be an accident of who works there, it should be owned and managed by leaders across the organisation. Aspects of cultures can be created or changed, through a structured programme of integrated interventions which are then monitored.

We have found that creating a consistent programme across the organisation with the active engagement of all leaders and managers can help to align sub-cultures, drive firm's cultural aspirations and help achieve business goals. Culture can be a real differentiator in today's fast paced and complex interconnected world where business models can be easily replicated by competitors. Real and lasting competitive advantage can be achieved by implementing a culture that is consistent and aligns with the business strategy.

So how can audit do this? Well, culture manifests itself in two main areas. The first is formal – how organisations articulate, govern and manage the culture. The second is informal – how individuals and teams engender, perceive and shape the formal culture within the organisation. We will discuss how we audit these two areas in more detail in the following pages.

"Internal audit, acting as the eyes and ears of the board but independent of management is in a unique position to judge and advise whether the tone from the top is being adhered to across an organisation. Through internal audit, a board can satisfy itself not only that the tone from the top represents the right values and ethics but more importantly that this is being reflected in the actions and decisions throughout the organisation."

Dr Ian Peters, Chief Executive, CIIA July 2015
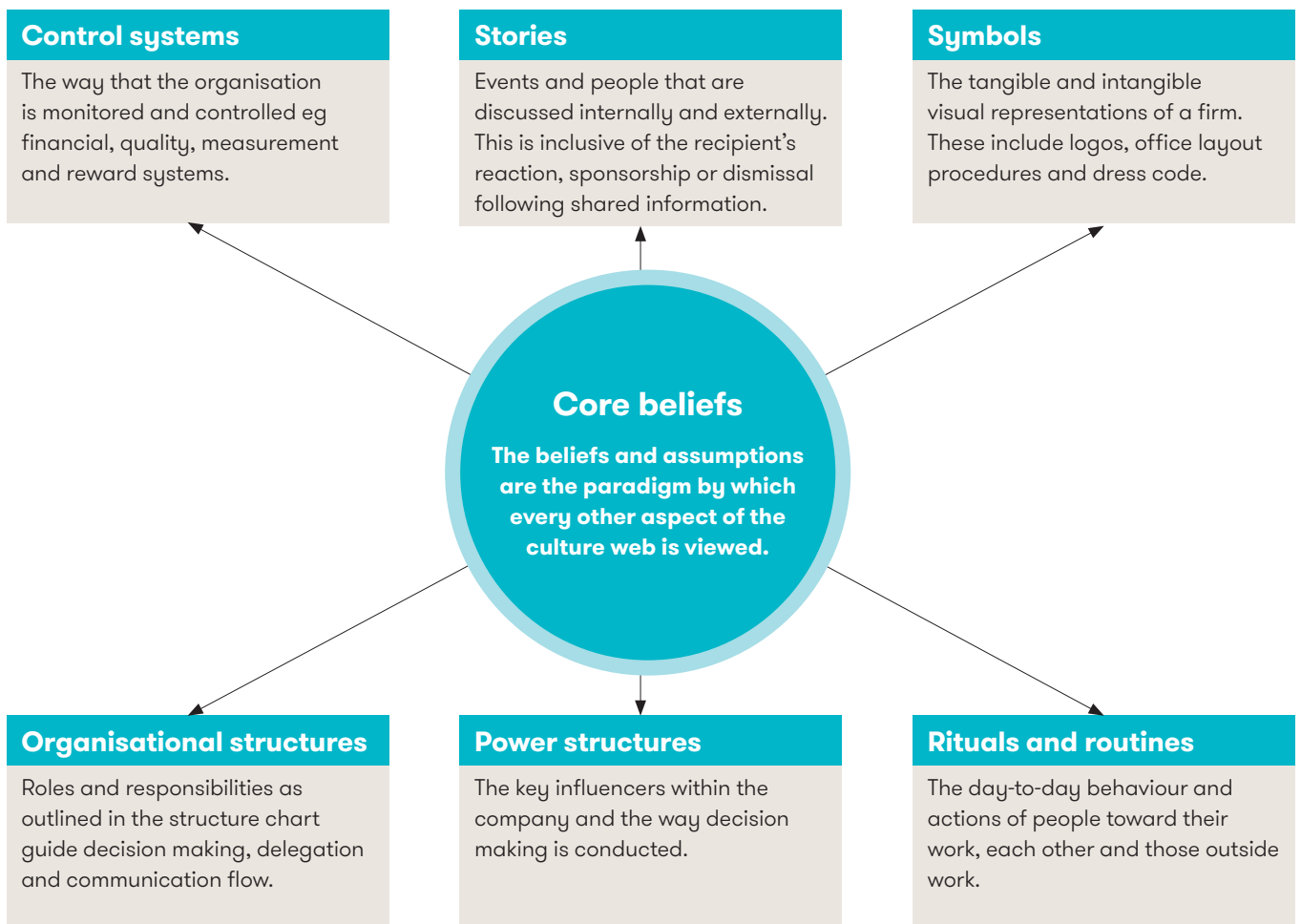
Understanding the drivers of culture

Culture is primarily created by formal drivers which in turn impact the core beliefs and assumptions of your organisation.

The formal aspects of your organisation's culture are structural in nature and are the drivers to maintaining and/or changing it. Through our audits and reviews, we assess the formal drivers and your employees' informal perceptions of them. This ensures the drivers are positively aligned to your strategy and values.

Strategy

- Business strategy
- Vision, values and behaviours
- Ethics and conduct
- Alignment through the organisation

Leadership

- Tone from the top
- Communications consistency
- Role modelling
- Recognising good behaviours
- Treating customers and suppliers fairly

People management

- Recruitment and retention
- Competence and capability
- Reward and recognition
- Succession planning and talent management
- Performance management

Resource management

- Supply chain management
- Physical assets
- IT tool/presence
- Financial controls
- Front office/back office
- Marketing material

Process management and change

- Risk management and lines of defence
- Processes critical to culture
- Business policies/standards
- Call scripts/letters
- Customer take on process
- Transformation

Corporate responsibility

- Environmental impact
- Sustainability
- External coverage and perception
- Community impact

Your people are your culture. A simple statement, however your culture is characterised by how your employees informally understand and represent your organisation. Our review of the intangible aspects of your culture utilise an academically proven model to explore this with employees.

Johnson and Scholes describe how to understand the informal aspects with a model called the culture web which depicts a paradigm of the working environment. We use the culture web to understand how the individual and collective perceive the formal drivers of culture in an organisation and to determine where the gaps and risks exist. These areas include:

Control systems
The way that the organisation is monitored and controlled eg financial, quality, measurement and reward systems.

Stories
Events and people that are discussed internally and externally. This is inclusive of the recipient's reaction, sponsorship or dismissal following shared information.

Symbols
The tangible and intangible visual representations of a firm. These include logos, office layout procedures and dress code.

Core beliefs
The beliefs and assumptions are the paradigm by which every other aspect of the culture web is viewed.

Organisational structures
Roles and responsibilities as outlined in the structure chart guide decision making, delegation and communication flow.

Power structures
The key influencers within the company and the way decision making is conducted.

Rituals and routines
The day-to-day behaviour and actions of people toward their work, each other and those outside work.

Audit methodology

The following model takes you through our approach for assessing and understanding culture in organisations.

The best way to audit culture is to begin with the formal drivers of culture:

- leadership
- strategy
- corporate responsibility
- people management
- resource management
- process and change.

The formal drivers and their outcomes are understood through both a design and operational effectiveness evaluation and then validated against the informal perceptions of your employees by conducting interviews, workshops and potentially surveys. Through engagement with our clients we have found a series of recurring themes which should be considered by any organisation looking to drive success through culture:

1 Structured design across all drivers is critical. To choose one or two will lead to organisational confusion and a lack of buy in.

2 Alignment across functions and geographies is critical.

3 When transforming your culture you should be looking to keep the speed and momentum of change consistent across business lines and geography.

Assessing the informal drivers of culture

Culture should never be an accident of the individuals who work for your organisation, or of its history. When we review and assess the informal drivers, we are looking for consistency of message from the top through to your front line employees. We are looking for the following in three populations:
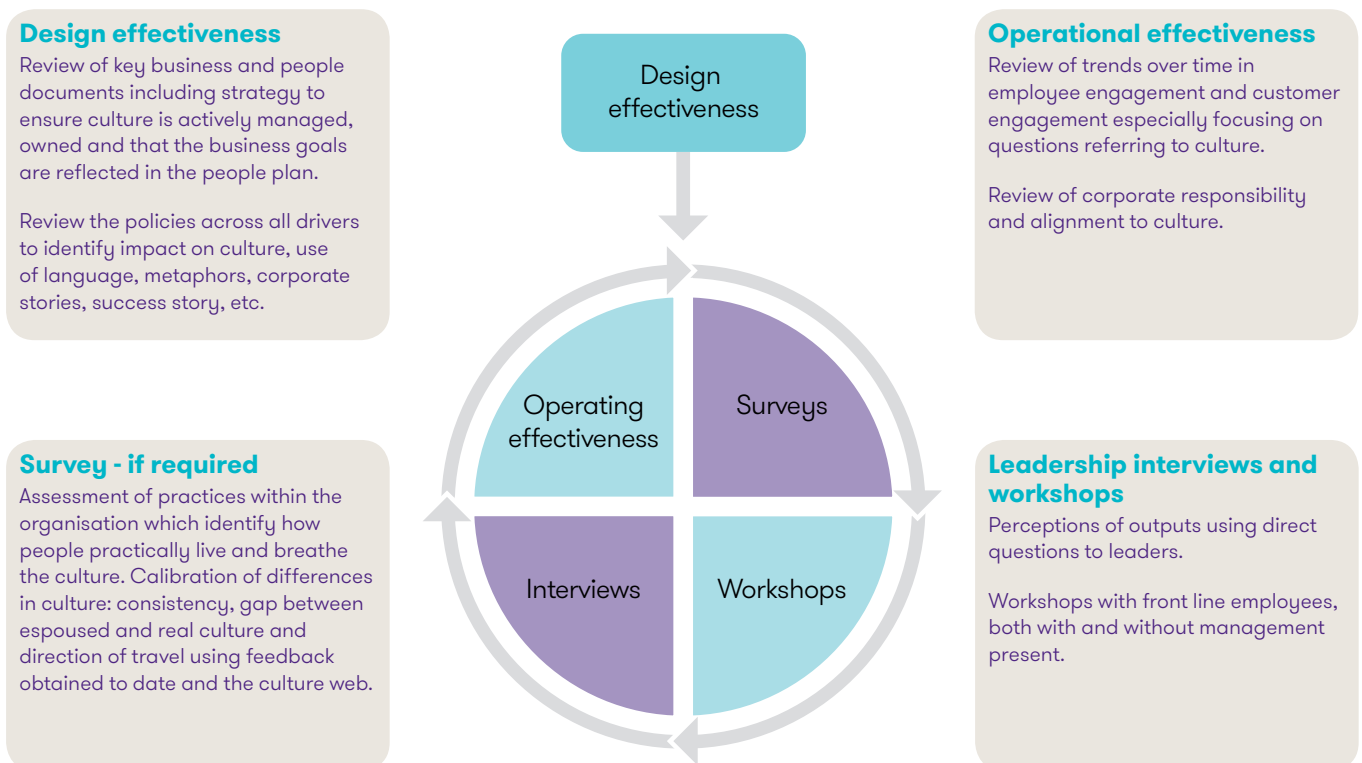
- **Top of house** – Leaders set the direction of travel for culture and should be able to consistently demonstrate your cultural aspirations
- **Middle management** – This population reinforces the tone from the top. Are they aligned and delivering the right message consistently?
- **Frontline** – Do your employees understand and embody the firm's culture with customers and each other?

How we approach auditing each driver or outcome

Drivers

Leadership	Strategy	Corporate responsibility	People management	Resource management	Process

Outcomes

Customer, employees and stakeholder engagement

Approach

Is the approach to each driver defined, communicated and integrated?

For each driver is there a link back to business strategy?

Is the approach to all of the drivers aligned and consistent?

Deployment

Is the approach to each driver implemented systematically and evenly across all areas of the business?

Are any variations to approach understood, agreed and documented?

Assessment

Is there a defined way of measuring the impact of each driver?

Are change projects assessed for the impact on culture as well as value to the business?

Refinement

Is there evidence of an understanding of the impacts of each driver on culture?

Is there evidence of learning, improvement and innovation?

Relevance

Are the outcomes consistent across the business?

Is the strategy effective?

Are the right questions asked to the right sample of customers, employees or suppliers?

Performance

What are the trends?

Are targets being met?

What do external comparisons show?

Are the drivers clearly impacting on the outcomes?

Design and operational effectiveness are assessed and information supplemented

Design effectiveness

Review of key business and people documents including strategy to ensure culture is actively managed, owned and that the business goals are reflected in the people plan.

Review the policies across all drivers to identify impact on culture, use of language, metaphors, corporate stories, success story, etc.

Operational effectiveness

Review of trends over time in employee engagement and customer engagement especially focusing on questions referring to culture.

Review of corporate responsibility and alignment to culture.

Survey - if required

Assessment of practices within the organisation which identify how people practically live and breathe the culture. Calibration of differences in culture: consistency, gap between espoused and real culture and direction of travel using feedback obtained to date and the culture web.

Leadership interviews and workshops

Perceptions of outputs using direct questions to leaders.

Workshops with front line employees, both with and without management present.

Design effectiveness

Operating effectiveness

Surveys

Interviews

Workshops

Leading to a structured outcome

Final report

Utilising all of the information and analysis, present a holistic review of the current and espoused culture including a gap analysis as well as an assessment of the implications of the current approach to drivers.

How we can help

Grant Thornton is one of the world's leading organisations of independent advisory, tax and assurance firms. We help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice.

Our underlying purpose is to build a vibrant economy, based on trust and integrity in markets, sustainable growth in dynamic businesses and communities where businesses and people thrive.

Before you embark on your culture journey, we can help you establish which area of your culture framework requires most attention.

There are many structured tools to assess, change and measure culture. The more we understand your needs the better our culture experts can assess exactly which tools to use to help you achieve your goals. So whether it is business transformation, a merger, assurance or an internal audit of all or part of your culture, we can help. With culture having a significant influence on customer and business outcomes and featuring high on the CIIA agenda, gaining assurance over it is vital.

Auditing Culture – your challenges
- Obtaining a clear picture over the positioning of your organisation's culture together with an actionable audit report
- Overall understanding of your culture and more effective and active management of it

How Grant Thornton can assist you
- Provision of a tangible audit report on culture to the audit committee and other senior stakeholders
- Examination of your transformation projects and identification of particular pockets or sub-cultures that are not aligned to the firm's values
- Identification of both lead and lag indicators
- Examination of design, deployment, internal measurement and improvement mechanisms in your organisation

Our other Culture offerings
- Measurement and analytics
  - Measuring your culture and recommending KPIs
- Cultural Alignment
  - Maintaining culture through M&A and realigning subsets of the organisation
- Culture Transformation
  - Transforming the whole organisation towards an aspirational culture

Our culture framework offering

Audit and Assessment

Cultural Alignment

Cultural Transformation

Measure and Analyse
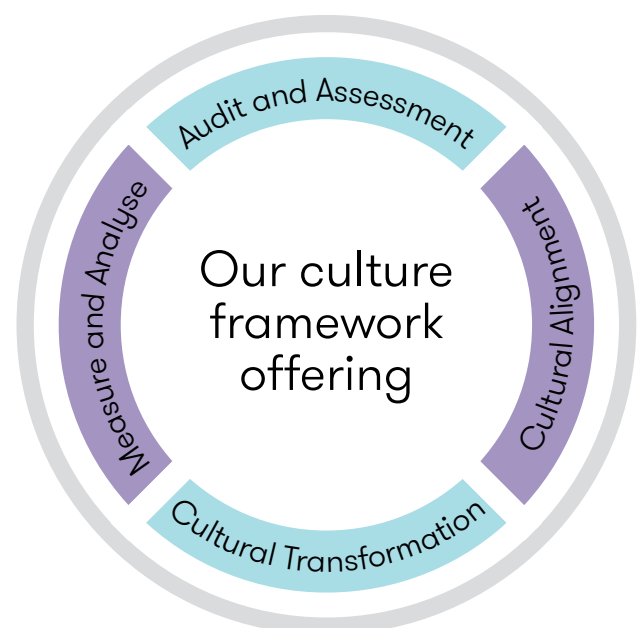
Contact Us

Eddie Best
Partner, Large Corporate
Business Risk Services
T +44 (0)20 7728 2849
E eddie.j.best@uk.gt.com

Martin Gardner
Partner, Large Corporate
Business Risk Services
T +44 (0)20 7728 2847
E martin.n.gardner@uk.gt.com

Sue Jex
Director and Culture Lead
Business Risk Services
T +44 (0)20 7865 2889
E susan.jex@uk.gt.com

Howard Miller
Associate Director
Business Risk Services
T +44 (0)20 7865 2517
E howard.h.miller@uk.gt.com

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grantthornton.co.uk

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