



Understanding and Assessing Corporate Culture

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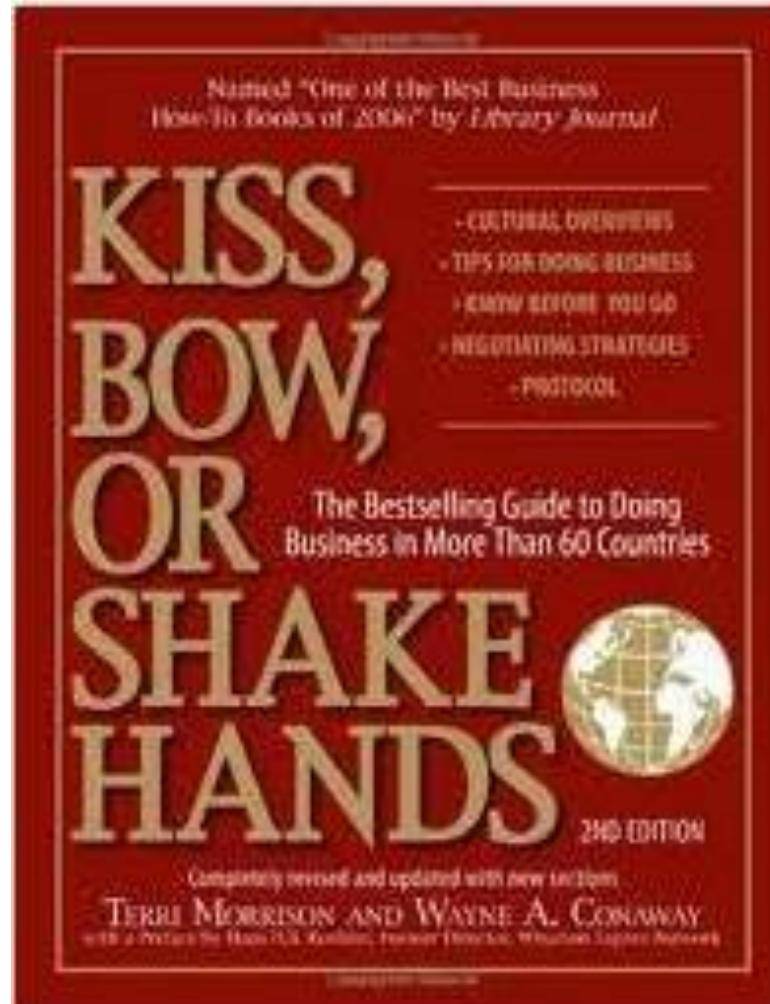
What is Culture?

- The unwritten rules generally followed by a distinct group of people.
- The shared patterns of behaviors, interactions, and understandings that are learned through a process of socialization.
- Cultural anthropologists focus on understanding the variations in cultures.
- Children are socialized based on their careful observation of their parents, adults, and older children. In essence, people are born cultural anthropologists. Many people partially lose this skill as they get older.
- Culture can be seen in a country, a region, a tribe, a corporation, an organization, etc.
- Today, we will focus on understanding and assessing Corporate Culture.

Culture in the Context of World Regions



A Guide to Cultural Sensitivity and Doing Business in More Than 60 Countries



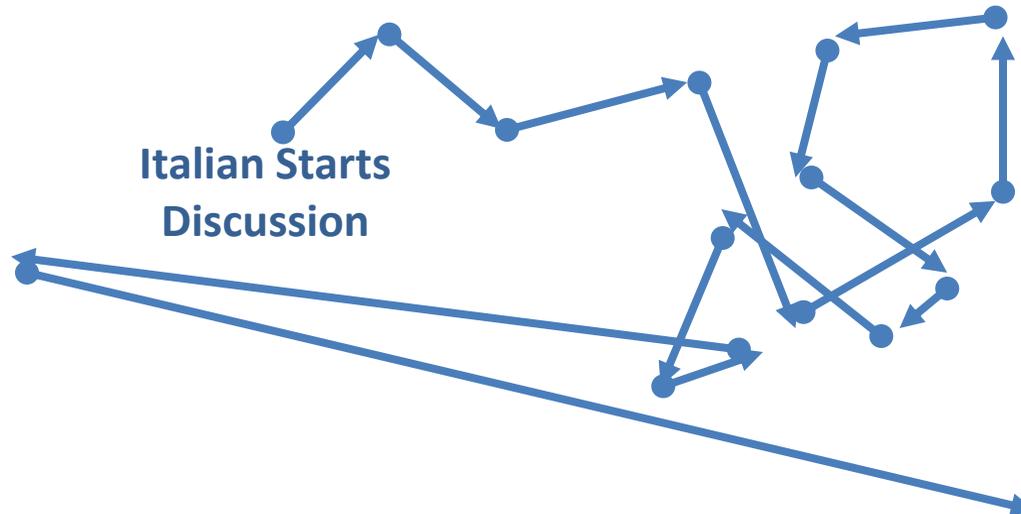


An Italian and a German go Into a Bar...

Simple differences in cultural views about personal space can lead to misunderstandings:

- In the Italian culture, the preferred distance for a conversation is about 1.5 – 2.5 feet.
- In the German culture, the preferred distance for a conversation is about 3-4 feet.

**Northern
Europe vs.
Mediterranean
Countries**





What is Corporate Culture

- The generally shared beliefs that determine how a company's employees interact with each other.
- It's a blend of the common values, ethics, expectations, assumptions, goals, work environment, behaviors, and prohibitions that organizations develop over time.
- It is the 'personality' or 'DNA' of the organization.
- The corporate culture is usually unconsciously understood, not written. Some auditors struggle with rules that aren't documented.



Subcultures of a Corporate Culture

- In large organizations, it is very likely that the various divisions, departments, and operating units have their own version of the corporate culture. These are considered subcultures.
- For the leaders of the overall organization, a challenge is to properly align these subcultures so that they reflect the values and goals of the overall Corporate Culture.



How do Corporate Cultures Form?

- The culture is usually started by the founders of the organization, and is in line with their beliefs, leadership styles, and values. Corporate cultures often develop by default, instead of conscious design.
- The culture grows over time from the behaviors of the people the company fires, hires, trains, develops, and promotes.
- The ‘proper’ cultural behaviors are encouraged and rewarded by the organization. This reinforces the culture.
- Employees who chronically violate the customs of the corporation usually fail, and will likely end up leaving the organization. This leaves behind the people who follow and prefer the established unwritten rules, therefore further reinforcing the culture.



Importance of Employees

Understanding the Corporate Culture

- If an employee does not work according to the organization's cultural rules, there is a very high probability of personal failure.
- A potential new employee would be wise to assess the culture. This is to ensure there is good alignment between the personal desires and the values and behaviors of the corporate culture.
- Example: An employee who truly loves working for Google, and is successful there, is unlikely to like working for the US Post Office.
- Understanding corporate cultures is a very critical People-Centric Skill.

“Culture eats strategy for breakfast.”

- Peter Drucker

- Strategy can be easily replicated. However, a corporate culture is very hard to replicate.
- Example: Toyota Production System (TPS)
 - During the 1980's and 1990's Toyota generated outstanding product quality. Much better than the Detroit competition and at lower cost.
 - Every company wanted to learn the secret, and many studied TPS.
 - However, few could emulate the Toyota culture that made TPS work.
 - Toyota had a culture that focused on: Relentless process improvement, dedication to customer satisfaction, required advanced knowledge of statistics at all levels, mandated employee suggestions, very advanced teaming, consensus management, fanatical cost focus, and lifetime employment, among many other cultural attributes.
 - Very few companies could replicate the culture that fostered TPS.
- The best companies get the culture right, and this will ensure their employees will generate the right strategies, as needed.



Importance of Auditors

Understanding the Corporate Culture

- While a controversial view, most Auditors are also human. They want to succeed!
- Understanding the stated 'Tone at the Top' is not good enough. Auditors also need to understand the underlying Corporate Culture.
- For example, Enron had a slick and extensive Business Conduct Policy signed by the CEO. The stated 'Tone at the Top' was not sufficient to understand the control environment.
- Auditors love to include the Business Conduct Policy in their workpapers. In reality, this is a somewhat meaningless document, unless it is in line with the Corporate Culture.
- As auditors visit various units and businesses, they need to understand and be sensitive to the corporate sub-cultures.
- It's important to understand the behaviors and motivations of each organization you audit.

Effectiveness of a Corporate Culture

- The most effective cultures are the ones best adapted to succeed in their environment.
- Large organizations must have had an effective corporate culture at one time.
- A specific corporate culture developed and evolved because it contributed to the success of the organization.
- Competing organizations, with cultures less adapted to their environment were less successful, and eventually fell by the wayside.
- However, if the environment changes, what was a successful culture at one time, may now be a hindrance to present and future success.

Example: General Motors

- Alfred Sloan was GM's CEO from the 1920's to 1950's. – Under Sloan, GM became the largest and most successful company in the world.
- Sloan is remembered for being a rational, shrewd, opportunistic, and very successful leader. He carefully engineered a culture with a complex command-and-control structure with an emphasis on profits over morality.
- By the 1980's this culture got GM in trouble because it did not adapt sufficiently to the changing business environment.
- Planned obsolescence, the immoral practice Sloan established to sell more cars, became very uncompetitive. Especially, when Toyota came out with high quality, dependable, long-lasting, and lower cost vehicles which provided a real choice to unsatisfied customers.
- At the same time, the rigid command-and-control organizational structure was not nimble enough to react quickly to the era of high gasoline cost. GM's past success made the employees believe that their culture was the most superior one and did not need to change.
- Several rounds of CEO's tried unsuccessfully to change the GM culture, and it was four decades later, that GM really started changing it's culture.



Negative and Positive Aspects of Corporate Cultures

- A healthy culture is one where the employees are motivated, customers are satisfied, organizational goals are achieved, laws are complied with, and the company adapts positively and quickly to changes in the environment.
- A dysfunctional corporate culture is unlikely to succeed in the long term. Sometimes, a healthy corporate culture, which was established by the successful founders, is destroyed or damaged by subsequent leaders.
- Successful corporate cultures need to transform over time as the environment changes, as organizational goals change, as new societal pressures emerge, and as the national and global culture evolves.
- If the corporate culture does not evolve, it will fall behind other companies with a culture better adapted to the current business challenges and the environment.
- For example, Kodak was extremely successful in making and selling photo film, but did not adapt its culture to succeed in a digital world.

How to Understand the Corporate Culture

- Since an organization's corporate culture is mostly unwritten, there is usually very little material that can be used to learn about the culture.
- The best way to learn about the corporate culture is to carefully observe how the employees around you behave.
- I'm suggesting you act as an unbiased and independent cultural anthropologist. Relearn the skills you had as a young child.
- Note that a cultural anthropologist needs to be objective enough to stand back and consciously understand what others do because it is unconsciously expected of them.

Dimensions of Corporate Culture: Questions and Observations

- Cultures can be analyzed along different dimensions.
- Following are some cultural dimensions you can observe to start to understand your corporate culture.
- ‘Observation’ is the act of asking yourself questions and seeing if your plausible answers can improve your understanding.



Selected Dimensions of Corporate Culture

- Empowerment vs. Command-and-Control
- Ethical Orientation
- Decision Making Style
- Teaming/Collaboration
- Improvement/Quality Orientation
- Communication Style
- Work Environment
- Silos vs. Cross-functional Cooperation
- Process Discipline
- Management Style
- Centralized vs. Decentralized
- Fear/Risk Avoidance
- Growth Focused
- Cost-Cutting Focused
- Organizational Agility
- Customer-Centric
- Personal Accountability
- Openness/Trust
- Fire Fighting vs. Deliberate Anticipation and Planning

Empowerment vs. Command-and-Control Structure

- Are employees micromanaged (minutely directed) or broadly empowered?
- What is the level of delegation?
- What are employees allowed to do without getting approval from their boss?
- Are most work instructions top-down, or is there room for employees at different levels to provide input?
- Is the organization managed in a hierarchical (military) style or is participative in nature?

Ethical Orientation

- Do the executive actions match what they say?
- Are ethical lapses of certain employees treated differently depending on their perceived value to the company?
- Is there a history of regulatory problems?
- Are there executive discussions as to the odds that the regulators will find an issue and the 'affordability' of any fines.

Decision Making

- How are decisions made and how are they deployed?
- Are decisions based on facts and analysis, or on 'gut' feelings? Both valued?
- Is management generally hands-on or hands-off?
- Is the organization decisive or does it 'dither' without making hard decisions? (Analysis-Paralysis).
- Does the organization favor quick 'approximately right' decisions, or slow 'more certainly right' decisions.

Teaming & Collaboration

- Do employees work mostly independently, or is teamwork and collaboration more the style?
- What are the interactions between employees? Friendly and supportive, or tense, cut-throat, and competitive?
- Are employees pitted against each other in a 'dog-eat-dog' fashion?
- Are employees more appreciated for being a very successful individual contributor ('hero'), or for contributing to a very successful team?

Improvement/Quality Orientation

- Is there an expectation of being excellent and a desire to be ‘best-class’?
- Are all employees expected to generate ideas for improving their areas and processes?
- Are process failures carefully analyzed to understand the root causes? Or are failures just fixed and then people move on to the next crisis.
- Is continuous and relentless improvement emphasized? rewarded?

Communication Style

- What is the tone and nature of communications to employees? Formal or informal?
- Do employees get news of corporate happenings via the ‘rumor mill’?
- Do employees have broad knowledge of the business or do they mostly know about their immediate area.
- Is it dangerous for employees to communicate bad news upwards? Are messengers of bad news “shot?” How are whistleblowers treated?

Work Environment

- Is consistently working long hours expected for success?
- What is the attitude toward work-life balance?
- Are flextime and telecommuting practices acceptable?
- How is office space assigned? How much space is given to whom? Separate private offices? Cubicles? Open-office concept (minimal walls)
- Are employees usually dressed formally, or is business casual or even jeans, accepted?

Organizational Silos vs. Cross-functional Cooperation

- What is the interaction among departments? Is there a spirit of collaboration or are there ‘turf wars’?
- Do employees often blame their difficulties on other departments?
- Do broad business processes break down at the organizational boundaries of processes? This implies limited collaboration between organizations.

Management Style

- How are employees valued, recognized, rewarded, and promoted?
- Is the accepted management style confrontational and aggressive, or collegiate and easy-going?
- Is there undue resistance to change?
- Are the company practices inflexibly rooted in the past?
- What is the company's attitude toward modern management practices/technology?
- Do executives prefer employees who usually agree with them or do they prefer employees who tell the unvarnished truth?

Fear/Risk Avoidance

- Are risks well understood? Carefully considered and managed?
- Are the Risk/Reward aspect of actions considered?
- Are people afraid to change or innovate because the organization would punish them if an initiative failed?
- Is thoughtful risk-taking encouraged or discouraged?

Customer Focus

- Are high-quality products expected?
- Does the company pay lip service to customer satisfaction or is this really built into the actions and processes of the organization?
- How are customer complaints handled?
- Is customer 'delight' the goal?



Employee Development

- Are there opportunities for further training, development, and growth?
- What skills and personal attributes does the company value and support with resources?
- Is promotion usually from within, or are leaders and executives usually hired from the outside?



Other Dimensions of Corporate Culture

- Centralized vs. Decentralized
- Growth Focused vs. Cost Cutting Focus
- Agility vs. Plodding
- Personal vs. Diffuse Accountability
- Fire Fighting vs. Deliberate Anticipation and Planning
- Openness/Trust vs. Secrecy/Paranoia

In a Nutshell:

- Pay attention to the actions taken, not the statements made.
- What type of employee succeeds?
- What type of employee fails and is 'eased out'?
- Who gets promoted?
- What behaviors are rewarded and which are taboo?
- Do you feel comfortable or uncomfortable working in this organization? Why?

An employee's understanding and fit with the corporate culture is a key determinant in success or failure!

**Any question that is not a
criticism in disguise?**

Now you may criticize!



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