

# From Scandals to Serious Setbacks: How a Poor Company Culture Can Impact the Bottom Line

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Brad Knight | Managing Director, Risk Advisory Services  
Dawn Williford | Partner and South Region Leader, Risk Advisory Services



# Brad Knight, CPA, CRMA

Managing Director | Risk Advisory Services



## PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants  
Institute of Internal Auditors

## EDUCATION

B.S., Accounting, University of Tennessee,  
Knoxville  
M.Acc., University of Tennessee, Knoxville

Brad Knight has more than 14 years of experience leading and delivering internal audit, enterprise risk management, governance and compliance engagements to Fortune 500 and middle market companies. Prior to joining BDO, Brad worked at Brambles Ltd. where he oversaw and directed the organization's global enterprise risk management programs. Prior to Brambles, Brad worked with a Big 4 firm and a large regional firm where he focused in the areas of internal audit and risk.

Brad leads BDO's Risk Advisory Services Practice in Atlanta and the Southeast, and offers key experience in a variety of industries including: manufacturing, healthcare, supply chain, and technology.

Brad has been deeply involved in identifying and delivering governance, risk and compliance solutions to clients, including all aspects of SOX implementation and compliance, business process documentation, enterprise risk assessments, internal audit co-sourcing, internal controls assessments, and SOC reporting.

Brad is a licensed CPA in the state of Georgia and maintains a Certification in Risk Management Assurance from the Institute of Internal Auditors.



# Dawn Williford

Partner and South Region Leader | Risk Advisory Services



## PROFESSIONAL AFFILIATIONS

Association of Certified Fraud Examiners  
Certified Internal Auditor (CIA)  
Certification in Risk Management Assurance (CRMA)  
Institute of Internal Auditors

## EDUCATION

B.B.A., Finance, University of Texas, Austin

Dawn Williford has more than 18 years of experience in delivering internal audit, compliance and consulting solutions to Fortune 500 and middle market companies. She has also assisted newly public companies successfully achieve year one SOX compliance.

Dawn has been heavily involved in all aspects of business process evaluation and documentation, corporate governance, SOX readiness and ongoing SOX compliance, risk assessments, root-cause analysis and internal audit outsourcing and co-sourcing. Dawn has managed large scale internal audit, internal controls consulting and SOX engagements, with teams ranging in size from 3 to 15 resources. She has assisted clients with design and implementation of their internal controls framework, and led the team that developed the firm's COSO 2013 methodology.

Dawn assists clients with the development of their internal audit department and serves as the Chief Audit Executive for her outsourced Internal Audit clients.





# Today's Learning Objectives

At the conclusion of this course, participants will be able to:

- ▶ Describe the elements of an organization's culture
- ▶ Discuss the internal controls designed to mitigate risk associated with poor corporate culture
- ▶ Describe how to assess and report on an organization's culture

# What Goes Into An Organization's Culture?

# Key Risks

- ▶ Reputation
- ▶ Regulatory
- ▶ Disruptive Technology
- ▶ Supply Chain



# Key Findings: Top 3 Challenges Over 10 Years



**Disruptive  
Technologies**



**Reputational  
Risk**



**Cyber  
Attacks**

# Key Risk: Reputation



A COMPANY'S CULTURE IS  
REFLECTED IN THEIR REPUTATION



# Does Culture Matter?



Emissions  
Scandal



Fake  
Accounts

# Culture: The “Moral Fabric” of an Organization

Organizational culture encompasses values and behaviors that "contribute to the unique social and psychological environment of an organization".



# Culture Organization

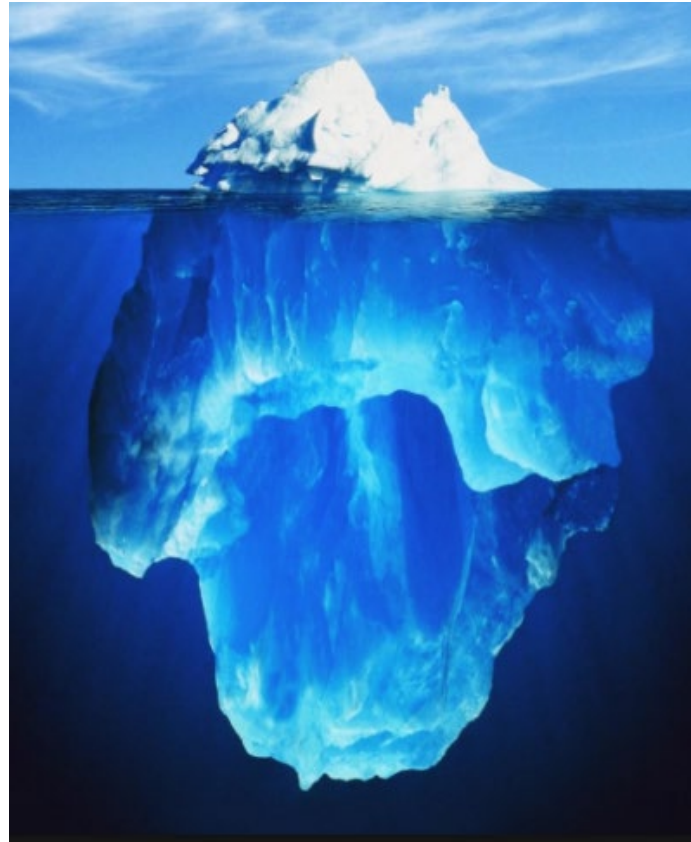
Formal policies, systems  
and practices

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Information practices and  
symbolic actions

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Beliefs, values &  
attitudes



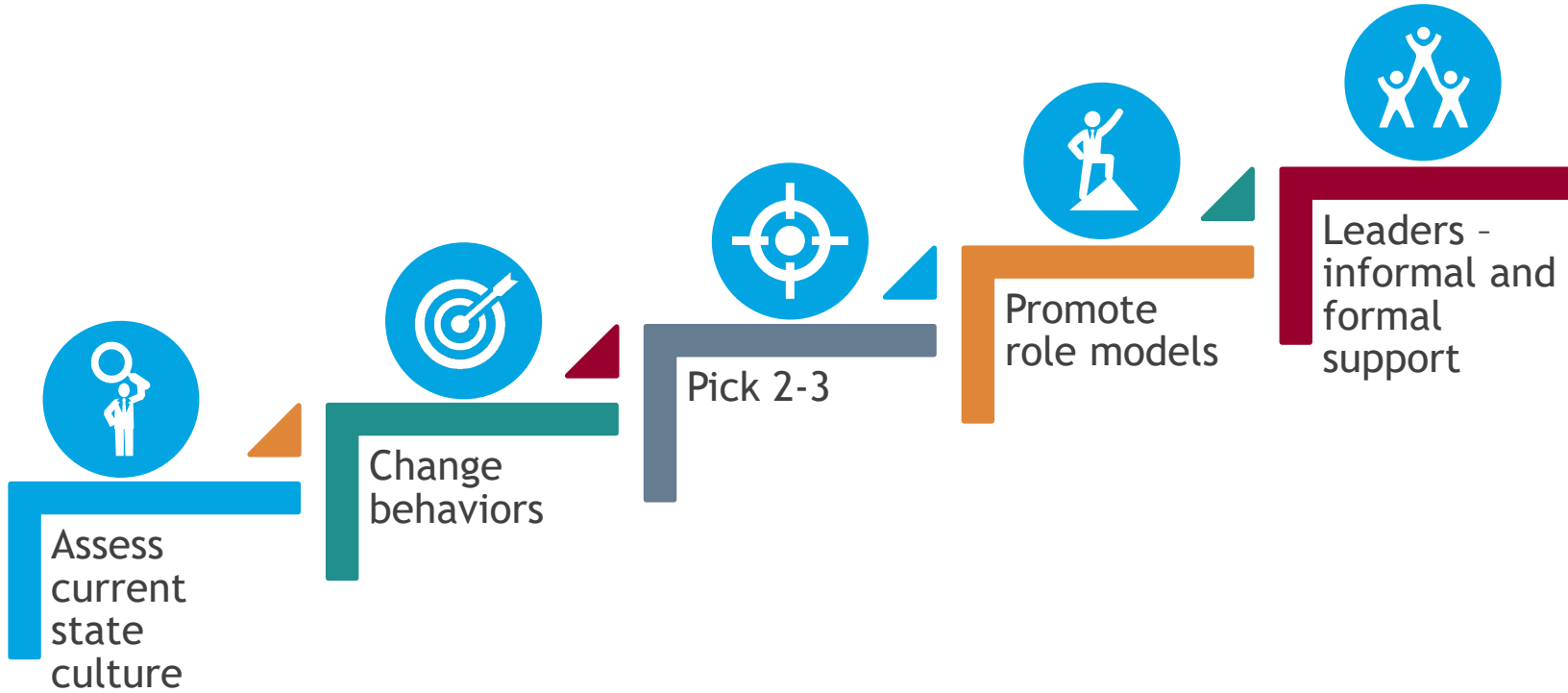
Only 4% of problems  
are known  
to top managers

9% of problems are  
known to  
middle management

74% of problems  
are known  
to supervisors

100% of problems  
are known  
to front-line  
employees

# Culture Organization



# Culture Organization





# A Tale of Two Cultures

## Company A

- Clear values
- High morale
- Honesty
- Ethical tone at the top
- Transparency
- Accountability
- Collaboration
- Encourages a long-term focus
- Promotes healthy risk-taking
- Incubates new, challenging ideas
- Affords quick resolution of differences

## Company B

- Intense focus on bottom line results
- Unjust practices
- Limited communication
- Defensiveness
- Blame
- Poor employee morale
- The talk isn't walked!

# How Do Internal Controls Impact An Organization's Culture?

# Where Do Internal Controls Come In?

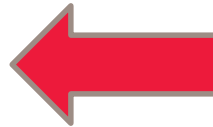
Culture problems start here and filter through the organization

Much of Internal Audit efforts are focused here



# Where Do Internal Controls Come In?

- ▶ Commitment to integrity and ethical values
- ▶ Exercises oversight
- ▶ Established structure, authority and responsibility
- ▶ Demonstrates competence
- ▶ Establishes accountability



# Where Do Internal Controls Come In?

What auditors  
are comfortable  
talking about...

- ▶ Code of Conduct
- ▶ Policies and Procedures
- ▶ Job Descriptions
- ▶ Hiring Practices
- ▶ Delegation of Authority
- ▶ Board of Directors Oversight
- ▶ Whistle Blower Hotline



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# Where Do Internal Controls Come In?

What is harder  
to talk about...

- ▶ Ethical Standards of Management
- ▶ Values of Management / BOD
- ▶ Leadership
- ▶ Competence
- ▶ Trust

# What Is Internal Audit's Role In Assessing Culture?



# What Is Internal Audit's Role?

Is a culture audit part of your internal audit plan?

*58% of respondents say "NO"*

What are the barriers to auditing culture?

*Lack of management / board support*

*Lack of internal audit's ability to measure organizational culture*

What are the factors influencing culture?

*Behavior modeled by executive management*

*Direct communication from executive management*

Source: *North American Pulse of Internal Audit, Time to Move Out of the Comfort Zone*

# Do As I Say, Not As I Do...



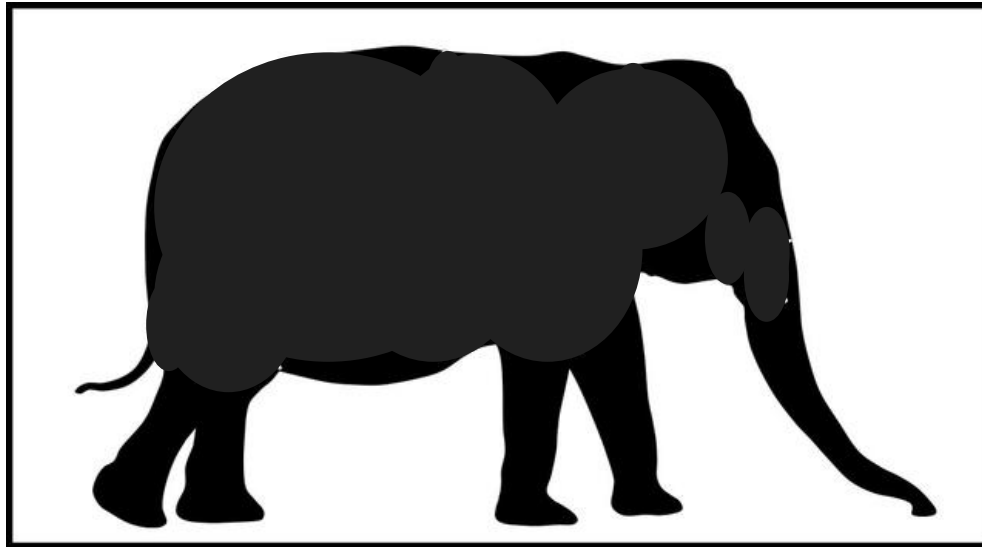
“As officers and employees of Enron Corp., its subsidiaries, and its affiliated companies, we are responsible for conducting the business affairs of the companies **IN ACCORDANCE WITH ALL APPLICABLE LAWS AND IN A MORAL AND HONEST MANNER.**”

Code of Ethics  
July 2000



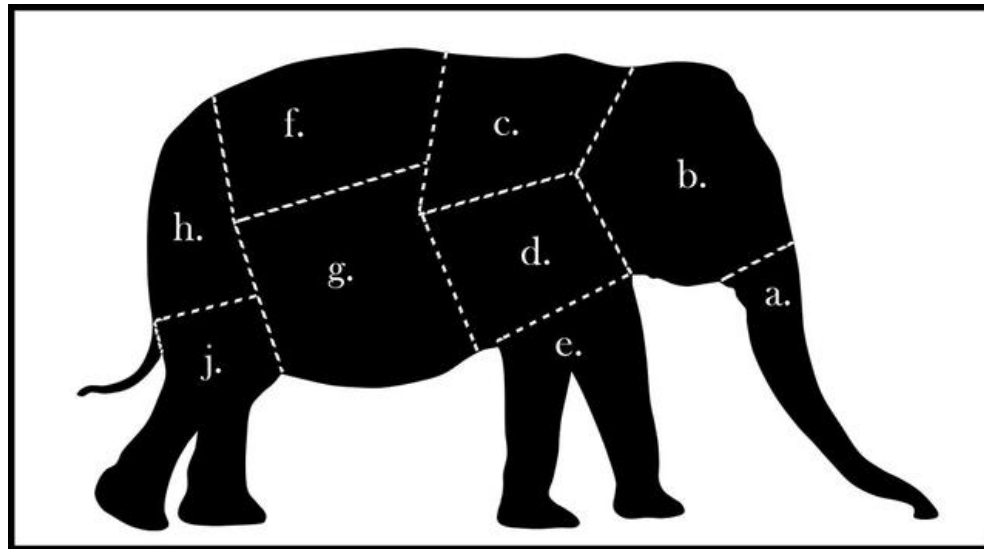
# Auditing Culture

## *Holistic Audit of Culture*

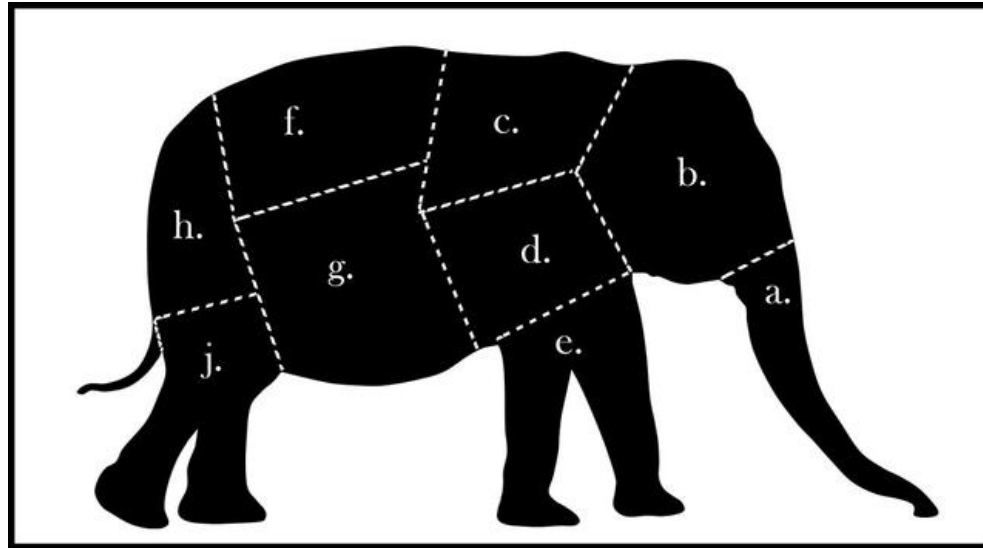


# Auditing Culture

*Cultural auditing embedded  
in every audit project*



# Auditing Culture



- a. Risk culture*
- b. Employee Relations culture*
- c. Fraud culture*
- d. Safety culture*
- e. Compensation culture*
- f. Information Technology culture*



# Auditing Culture: *Audit Techniques*

▶ Structured Interviews

▶ Employee Surveys

▶ Facilitated Workshops

▶ Root Cause Analysis

▶ Evaluation of Metrics

*Customer complaints*

*Turnover*

*Sick time*

*Repeat audit findings*

*Warranty claims*

*Hotline reports*

*Exit interview results*



## Auditing Culture: *Questions to Ask*

What's the communication style?

How are decisions made?

How are employees treated?

What's the approach to getting work done?

How freely is money spent?

What's the tolerance for risk?

How is customer service done?

What is the company's vision?

What are the company's stated and implicit values?

What structures are in place?

How are desirable actions rewarded?

How do customers talk about the company?

What is the competition like?

In which countries is the company operating?

# Auditing Culture: *Reporting*

- ▶ Format (written, verbal)
- ▶ Style
- ▶ Tone
- ▶ Audience

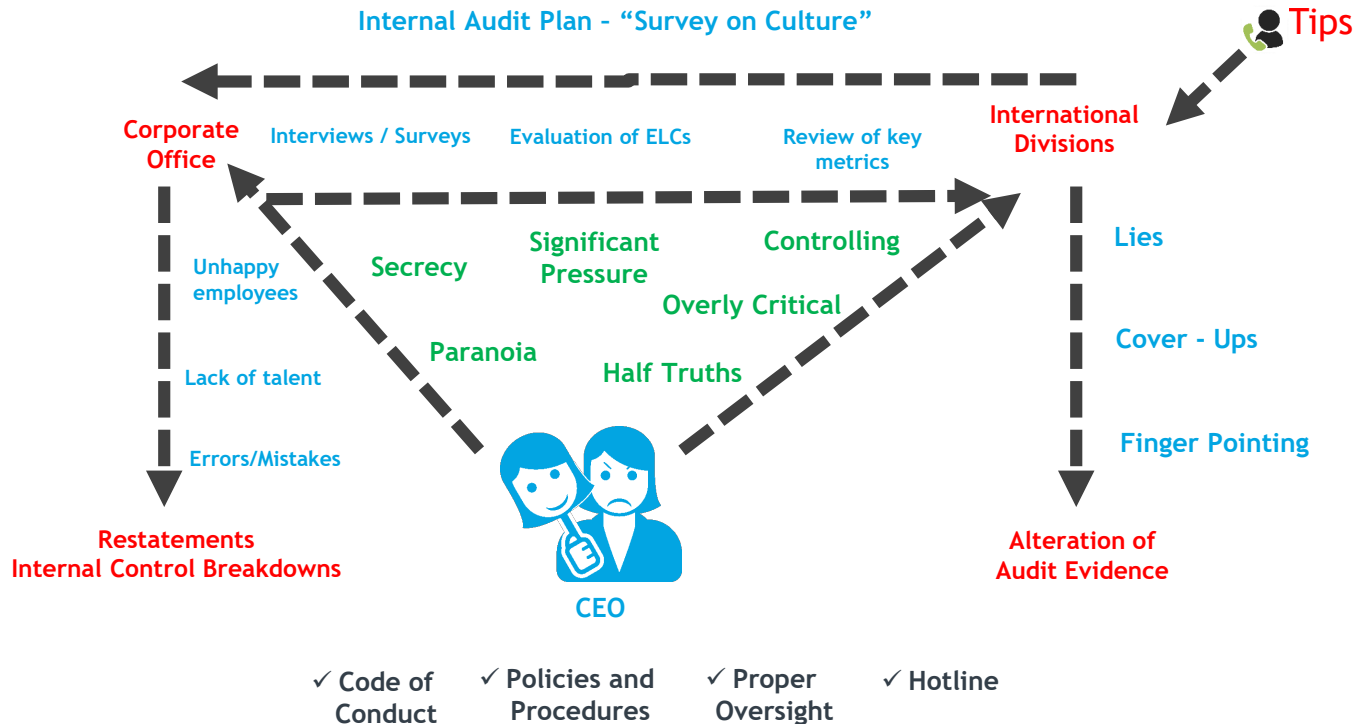


“A culture audit sheds light on a company’s core DNA, that which guides decision-making, problem-solving, and cross functional communication processes.”  
*Forbes* magazine, September 2014

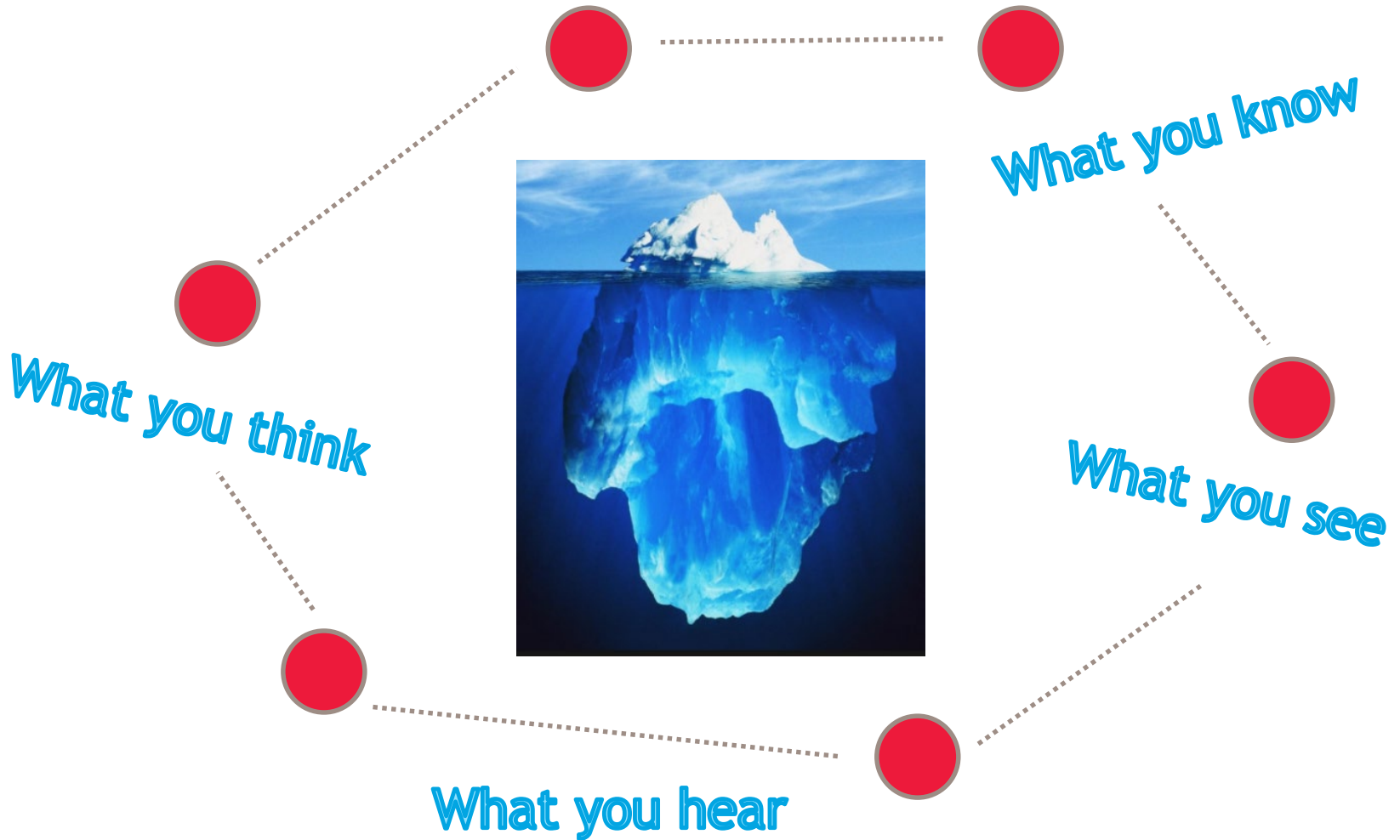
# Story Time: “A CEO in Crisis”

## Lessons Learned

- 💡 Appearance doesn't always equal truth
- 💡 Culture impacts can be felt everywhere
- 💡 Bullying doesn't just take place on the playground



# Connecting the Dots





# Internal Audit To Dos

- ▶ *Gain Support* - Build the relationships, respect and support necessary to discuss difficult concerns about culture
- ▶ *Communicate* - Discuss the importance of auditing culture with management, the audit committee and throughout the organization
- ▶ *Build an Approach* - Be it small, focused audit areas or an overall, holistic review, decide how your department will undertake a culture assessment
- ▶ *Fact Find* - Over time, gather information that can be used to evaluate an organization's culture - look outside the traditional objective methods that are “comfortable” to us as auditors

# It's A Journey

- ▶ A strong culture can take a long time to establish...
- ▶ An organization's culture takes a long time to change...
- ▶ But it takes very little time for elements of a toxic culture to take over.



# Questions



**Brad Knight**

[bknight@bdo.com](mailto:bknight@bdo.com)

404-942-2955



**Dawn Williford**

[dwilliford@bdo.com](mailto:dwilliford@bdo.com)

713-407-3867