

Investigating Corporate Culture



Kevin Hills, Head of EY's Integrity and Compliance Team, tells Dawn Murden that when it comes to corporate scandals and fraud, bad culture has a lot to answer for

There are plenty of examples in which bad decisions have muddied an organisation's reputation – just look at the recent scandals in the automotive industry, retail or the PPI failure in financial services.

“What's often struck me is that even those people who have committed some of the bigger frauds in history, actually, when you connect with them on a human level, culture is often the thread that helps explain why they did it,” says Kevin Hills, Partner in EY's Integrity and Compliance Team.

This is one reason why leaders and regulators are increasingly interested in understanding corporate culture and how it drives the behaviour and actions of employees.

So far, few concrete methods to measure culture have been uncovered beyond the clichéd explanation of ‘it's DNA’ or ‘it's the way we do things around here’. After all, how do you assess something intangible?

Kevin launched the Corporate Integrity Division at EY to do just that. He's on a mission to quantify culture.

Having spent more than 20 years in forensic accounting, Kevin has already carried out his fair share of investigations at both major UK and international companies. Indeed, some would describe his team as the CSI of the corporate world.

But it's a fine line to walk, as he explains: “We're building culture assessments into the way in which we provide assurance services, including our internal and external audit. It's important for firms like us to think about the impact it has on risk.” >



Setting the Standard

Kevin has to work against the belief that there is no benchmark for a good culture. “The standard exists, although it is different for every organisation. The leadership create it,” he explains, which is why the CEO and senior executives need to live the culture they wish to drive.

“We spend time with leaders trying to truly understand the purpose of the business and the values they want to see without reference to anything that’s written down. We use psychometric tests, interview techniques and workshops – there are various ways. What we’re trying to do is establish what behaviour the leadership is driving,” Kevin says.

“It’s not what’s written on the website or in the annual report. We know, as human beings, that we make our minds up about people based on what we observe.”

Kevin and his team also look carefully at the framework and policies organisations have in place, including the KPIs, rewards and bonus structures, because leaders need to incentivise the right behaviours and deter the wrong ones. Take the banking scandal as an example of what happens if you don’t – it’s no secret that the credit crunch was, in part, caused by bad decisions influenced through unsustainable reward.

“If someone’s sat there making a difficult decision, the mechanisms will nudge them in the right or wrong direction,” Kevin says.

He goes on to illustrate a recent example he encountered in which leaders tried to

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promote cross-functional collaboration yet the financial incentives remained within individual departments. It meant staff were only rewarded when they kept working exclusively in their team, not collaboratively as planned.

Kevin’s team at EY have also been studying the environment in business units. “Teams create an environment locally that drives them in a direction. We’ve had to develop tools and techniques to measure the political and social environment that people operate in,” he says.

Similar to the leadership assessment, Kevin also uses psychometric testing, workshops and interviews. Playing back this information to leaders highlights if a particular part of the business is not aligned.

Increasingly, data analytics is also being used for further assessments such as high staff churn. “For example, you might see the number of sick days or staff attrition is unusually high in a particular department,” Kevin explains. “During investigations we found that when there’s been a big problem, rather than blow the whistle, a lot of people just drift

off because, culturally, they don’t feel they can speak up.”

Kevin is confident that culture can be measured and managed, and says leaders should take note as pressure in this area is only set to increase. “Twenty years ago about 80 per cent of the stock market value came from financial information. It’s now dropped to less than 20 per cent. Investors are looking at other sources of information when they’re valuing an organisation,” he comments.

“We know there are plenty of examples in which a bad culture destroys value, but what about demonstrating the value of a positive culture?”

Is there a way to demonstrate that you’ve got a better culture than your competitors and therefore your business is more sustainable and deserves a lower cost of capital or a higher price earnings ratio? This is also something we are looking at.” ■



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Kevin has been Head of EY’s Integrity & Compliance Team in the UK & Ireland since 2013 and has been a forensic accountant since 1995. He has worked with many leaders in times of crisis, observing the impact that sub-cultures and beliefs can have on the performance and reputation of their organisations.

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