

Special Write-Ups

Should Professional Accountants Care about Culture? Yes!



Extensive rules and procedures alone are not enough to ensure appropriate conduct in the work place—the financial crisis of 2008 illustrated this. At the Association of Chartered Certified Accountants (ACCA), we believe that a healthy culture is a prerequisite for corporate governance and risk management to be truly effective. Without it, the effectiveness of regulations and codes will always suffer. But what exactly is “culture”? Read on to know more...

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Appropriate conduct is about the behaviors that support an organisation's objectives over the long-term, as opposed to those that go against what the organisation is seeking to accomplish, those that lead to accidents, destroy value, and end up in financial and reputational loss. Examples in the UK that come to mind include the misselling of a wide range of financial products to businesses and individuals or instances of market manipulations

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but there are similar examples elsewhere in the world. These are dysfunctional corporate behaviors.

Academics have long argued that when a culture is strong and widely shared, it becomes a determining driver of behavior and a durable enabler of internal control. How culture directly influences behavior is not, however, fully understood. To contribute to the debate, ACCA has conducted an international study based on qualitative and quantitative research—*Culture and Channelling Corporate Behavior*.

The Influence of Leaders

When we asked our global membership about their views on the drivers of corporate behavior, more than 60% of those who responded thought that tone at the top was the most influential. By contrast, 20% said financial and non-financial incentives were most influential and only 10% thought rules and procedures had most influence.

These responses indicate that corporate leadership plays a significant role in driving staff behavior, and it does so by embedding and promoting organisational values. In other words by “walking the talk” and being accountable for their own actions.

The Role of Performance Management

The findings from our survey also highlighted how performance management considerably impacts behavior.

Although half of the respondents agreed or strongly agreed that performance-related pay schemes help foster the best possible performance, nearly two-thirds (65%) also suggested that such schemes may lead people to exaggerate or otherwise falsify their performance measures.

Over the past 30 years, target-based performance management has become standard practice in many organisations. Corporate leadership should, however, be aware, of unintended problems arising

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when pay is closely linked to performance targets. Our previous research highlighted examples of cases where staff would either come up with measures they can easily achieve, or they would fabricate their results in order to reach their targets but at the expense of quality.

Motivation and Incentives

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Our findings suggest that simple monetary reward is not necessarily the strongest motivator; receiving better recognition or more challenging work were cited ahead.

What's in it for Accountants?

While much work is still required to directly link culture to corporate behavior and more evidence is needed to understand how this influences performance, we think that it is important for professional accountants to address and adapt to these issues and ideas.

In our last edition of *Accountants in Business*, ACCA president Alexandra Chin dedicated her monthly column to the topic. She says that finance professionals have a “vital part to play” because of their “almost unique, overarching view of the organisations for which they work”. She believes that “the information and insights, along with the ability to report them effectively and have an impact on performance management” allow finance professionals to help organisations engage in considerations and changes to promote functional behaviors and healthier cultures.

Our research findings provide ideas to start such dialogue at both the board and management level. ■

(This article originally appeared on the IFAC Global Knowledge Gateway: www.ifac.org/Gateway. Visit the Gateway to find additional content on a variety of topics related to the accountancy profession.)