Culture and channelling corporate behaviour

APPENDIX 2: FINDINGS FROM THE ACCA–ESRC ROUNDTABLE DISCUSSIONS

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Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

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This is part of a series of four reports that aims to assist boards in preparing to assess their corporate culture and in understanding how it can influence either functional or dysfunctional behaviour.

IN THIS SERIES...

The four reports in this series are:

- *Culture and Channelling Corporate Behaviour: Summary of Findings,* ACCA, 2014.

- *Culture and Channelling Corporate Behaviour, Appendix 1: Review of the Academic Literature on Organisational Culture,* ACCA, 2014.

- *Culture and Channelling Corporate Behaviour, Appendix 2: Findings from the ACCA–ESRC Roundtable Discussions,* ACCA, 2014.

- *Culture and Channelling Corporate Behaviour, Appendix 3: Results from the ACCA–ESRC Member Survey,* ACCA, 2015.

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Executive summary

ACCA launched the Culture and Channelling Corporate Behaviour project in collaboration with the ESRC, the UK's Economic and Social Research Council, to investigate what causes functional and dysfunctional behaviours in organisations. The methodology agreed specified that research should build both on relevant literature and on a series of national and international expert roundtable discussions.

A project briefing based on a set of hypotheses was drawn from previous ACCA work, particularly *Risk and Reward: Tempering the Pursuit of Profit*[1] and *Creating Value Through Governance – Towards a New Accountability: A Consultation*[2], in order to guide conversations.

Two exploratory roundtables were then organised in London and ACCA invited members of its various forums and member network panels and others to test out the validity of the hypotheses.

Following these meetings, the research team refined its set of hypotheses and chose to structure the sessions to address a more focused set of core questions. After the London events, roundtables were then held in Bangalore, Brussels, Dubai, Hong Kong and New York City.

More than 150 representatives from the public and private sectors, from financial services, from consultancies and from related academic fields have been involved in this research. They included executive directors, chairmen and non-executive directors, internal auditors, risk managers, researchers from international organisations and board information consultants.

KEY FINDINGS

While opinions sometimes differed across geographic locations, some core elements received general agreement. For instance, it was strongly believed that a culture of accountability helps foster functional behaviours. The absence of penalties for breaking rules creates dysfunctional behaviours and splitting cultures.

There should not be two sets of rules in an organisation.

Another key finding concerned the crafting of regulation. There was strong consensus that no regulation could be written so precisely as to cover all paths to the desired outcomes; there was extensive debate on principles-based versus rules-based systems but, in any case, as one attendee said in Hong Kong, a principle is just a rule that has not been written yet.

The main point of divergence between all roundtables appeared to be in the perception of regulation as an effective means of channelling functional corporate behaviours; t was much more positively regarded in places, such as India and Dubai.

Regulations can nurture a sense of responsibility in business.

In New York, London and Brussels, compliance to regulations and codes was perceived as a box-ticking exercise and a bureaucratic burden; Hong Kong's position however could be seen as somewhere in the middle.

The roundtables also looked at the influence of boards on culture and behaviour, and here again, divergences started to surface. While the tone at the top was highly regarded and respected in London, China, India and Dubai, its effect was slightly challenged in New York. It was suggested that the whole notion of tone at the top becomes increasingly less important the more complex the organisation becomes; actually, many believed that each one of us gives a 'tone' that influences others.

1. J. Davies, P. Moxey and I. Welch, *Risk and Reward: Tempering the Pursuit of Profit*, ACCA, 2010. <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/corporate-governance/tech-afb-rar.pdf>.

2. P. Moxey and A. Berendt, *Creating Value Through Governance – Towards a New Accountability: A Consultation*, ACCA, 2014. <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/corporate-governance/tech-tp-cvtg.pdf>.

The size and complexity of business determine how adequately, or not, the tone set at the top will trickle down.

As one participant in New York noted, subcontracting parts of an organisation's operations can produce a disconnection between the top and the bottom, thus increasing the risk of losing the tone set at the top, which then fails to influence behaviour lower down the organisation.

Size and complexity will also determine what kind of information flows and communication channels are in place, and how efficient they are in appropriately informing decision making at board level. There, the composition and dynamics in groups will be critical.

Challenge in the boardroom must be championed.

Many roundtable participants discussed at length the lack of constructive challenge and the ubiquity of groupthink in the boardroom. One affirmed that, in the finance industry, while the notion of challenge at board level is more traditional in the US, it does not translate well in countries such as Japan or even in European banking cultures. Challenge is less common still in south-east Asian companies. It was suggested that, at board level, greater independence of non-executive directors together with external reviews, external boards' facilitation, in-depth assessments of what happened to whistle-blowers and possibly interviews with those who left the organisation (particularly at senior levels) could help foster more objective and independent decision making.

Many also deplored the absence of functional bottom-up feedback loops and some warned that, increasingly, boards are too distant from their organisation's day-to-day activities to have an impact on corporate behaviours and cultures.

When looking at what drives behaviour in organisations, people mentioned the influence of unwritten rules (what gets you noticed and promoted), but also and most importantly, the signals people get from authority, the risk and reward balance and the behaviour of those around as key drivers. Boards must not lose sight of the fact that one person's behaviour will be influenced by the behaviour of other people, therefore for example, it is important for people throughout the organisation to be governed by the same set of rules.

Promoting two different sets of rules for the top people on one hand, and another for the rest of the organisation will most certainly create resentment and promote dysfunctional behaviours.

HYPOTHESES

To help refine the direction of this project, ACCA invited members of its Global Forum for Governance, Risk and Performance, Internal Audit Network and Financial Services Network panels and other experts to two initial exploratory roundtable discussions.

The meetings considered a set of seven initial hypotheses that were drawn from previous ACCA research, to guide the conversation and brainstorm what influences corporate behaviour.

Incentives and interests of people may cause them to override procedures and rules

- Do we know how incentives work and are there any that work against achieving organisational objectives?

- When will extrinsic factors override intrinsic motivation factors – and vice versa?

- Who within an organisation understands how incentives (deliberately devised or not) determine behaviour?

- What does the board or management do (a) to understand the incentives that influence behaviour throughout the organisation, and (b) to attempt to ensure that incentives support organisational objectives?

Regulation and codes on governance and risk management will not create a healthy culture as they do not tap into the intrinsic motivations of individuals

- Does regulation improve culture or undermine it?

- How do corporate governance requirements influence culture?

- How can we recognise a healthy culture?

- What are organisations doing to assess, change, or manage culture?

- Does it work?

What gets measured gets managed; what is not measured is not. But often measures get manipulated or 'gamed'

- Does any measure, as soon as it is used as an instrument of management, lose its managerial efficacy?

- How can we ensure that measures are not gamed and work to the organisation's advantage?

- To what extent are individuals motivated more by intrinsic than by external measures?

Tone and action at the top are key

- What can organisations do to set, influence or assess the tone at the top?

- Can you measure tone at the top and how can boards know if they have got it right?

- But what is it? Whose job is it to set 'tone at the top' – the board's or executives'?

Cognitive bias and groupthink can impede good decision-making.

- To what extent are people aware of this?

- What impact does this have on decision making and performance?

- Can we identify our own biases? Can a board do so?

- How best can we address our cognitive biases?

The imperative of maximising shareholder value makes it harder for boards and companies to take into account the interests of other stakeholders, and makes them focus too much on short-term gains

- Is this true?

- Does it matter?

- What could be done?

Trust is essential to any healthy business and to healthy economy.

- What most undermines trust?

- How can trust be fostered and sustained?

- Can we measure trust? Should we?

- How can we ensure that people behave ethically when no one is looking?

Roundtable 1: London, September 2013

The first roundtable extensively discussed the hypothesis that incentives and personal interests of people may cause them to override corporate procedures and rules. This roundtable was hosted by ACCA UK's Internal Audit Network Panel.

INCENTIVES AND INTERESTS VERSUS PROCEDURES AND RULES

Headline stories in the press around the time of this roundtable have suggested that individual behaviour was ultimately driven by incentives (not only those related to pay) and personal interests (job security, immediate gains) rather than regulation or institutionalised codes. Cases mentioned during the roundtable tended to confirm this assumption, although participants believed that many other factors, such as changing technology and skills, were also strong drivers; one thus concluded that 'it is not ultimately anything but it is partly everything'.

Internal auditor Sarah Pumfrett stated that without an accountability culture, personal incentives tend to override corporate procedures.

An absence of law enforcement mechanisms and penalties for breaking rules creates dysfunctional behaviours and splits cultures.

The reverse is also true. Both at the level of an organisation, or a group of organisations (industry level), when functional behaviour is less rewarded or not rewarded at all, it might teach others that this is not the way to operate if one wants to succeed.

Dr Sarah Blackburn, author and expert in organisational change and risk management described that, as a first instinct, 'running with the crowd is safer than challenging the model'. This assumption is echoed by the academic literature on cultural theory, as further explored in the main report. Research in sociology and psychology extensively demonstrated the influence of group pressure on individuals' choices and behaviour. There is an inherent trade-off between conformity and challenge; whilst people would tend to instinctively conform to the decisions and behaviours of the people around, the ACCA–ESRC report recommends that boards, executives and managers do encourage challenge within their teams as it fosters value-added decision-making processes.

HOW EFFICIENT IS REGULATION IN CHANNELLING FUNCTIONAL CORPORATE BEHAVIOUR?

One participant noted that although banking was one of the most highly regulated industries, dysfunctional behaviours continued. It was suggested that regulations coming from the industry itself might be an issue in this regard. It seems that an element of politicisation in compliance also led to a separation in the development of regulation and risk management, which was pulling apart the finance industry.

The ACCA–ESRC report recommends that boards be more honest about the value of regulation and codes; what attitude to regulation should an organisation have? Does it want to support and work with the spirit and the letter of regulation or does it see regulation as something to be avoided or exploited for its customers' interests or its own sake? The report suggests that boards consider where their organisations lie between enforcing and avoiding regulations, and whether it is where they want it to be.

CAN BOARDS INFLUENCE CORPORATE BEHAVIOUR?

Participants seemed to agree that boards primarily manage through using models. The extent of their control has limits and boards can at best influence corporate behaviours through levers. It was said that boards should not control through fear and blind orders but rather pay attention to people and deal with threats; one participant claimed that an ability to use persuasion was key to influencing behaviours.

It was broadly agreed that the tone from the top does play a critical role in driving corporate behaviour; the challenge is, however, to make it trickle down from top to bottom. ACCA member Neville de Spretter told the group that, for the tone to trickle down, chief executives are responsible for creating a sort of 'psychological pact' with the rest of the hierarchy. He recalled the example of a chief executive who extensively consulted his staff for months before defining the strategic outcomes the organisation should aim at; this CEO also asked what could be the contribution of each level or department in order to enable these outcomes, thus directly including staff in designing the strategy. As a result, people felt supported and involved, which directly impacted their performance, enabling the organisation

to evolve quickly from an average position in the FTSE 500 to the top of the FTSE 100.

Part of this success was certainly a result of the tone set at the top. Admittedly, effective communication and information flows going to and coming from the board are essential for an organisation to better function and perform.

CHALLENGES OF TRANSPARENT INFORMATION

For the roundtable participants, audit had a key role to play in assessing and helping the information flow; as one said, 'audit should be a genuine path of discovery' and represent a 'catalyst for addressing and making changes'. In some cases, however, auditors seem constrained in the type of risk on which they can report. As Pumfrett stated, issues in risk are not linear, they tend to coalesce. Early concerns are sometimes dismissed as single 'one-offs' and symptoms are often ignored until a problem grows 'to an extent that it cannot be controlled'. Internal auditors also find it hard to report on any problems that involve the board or senior executives.

Information must flow up and down but many factors can hinder its course. Many in the discussion thought that the management layers directly below the board were key to operational communication loops. It was believed, however, that in some cases those layers could act as a 'damp proof course', filtering out information going to and coming from the board.

Looking at issues of objective and independent decision making, the discussion thus turned to the composition of boards, potential biases and inherent trade-offs such as those between conformity and challenge.

BOARD DYNAMICS AND COGNITIVE BIASES

The phenomenon of groupthink was widely acknowledged as a common bias affecting boards' decisions. Self-suppression of dissent was also recognised as a pervasive feature and participants deplored the fact that whistle-blowing was still perceived in negative terms, rather than being considered a safety valve for the organisation.

Henley Business School Professor Michael Parker argued that most decision making was politically biased and that the power structure within the organisation was the ultimate driver of culture and behaviours. At board level, more objective and independent decisions could result from greater independence of non-executive directors. External reviews, external boards' facilitation, in-depth assessments of what happened to whistle-blowers and possibly interviews with those who left the organisation (particularly at senior levels) could also help foster more objective and independent decision making.

Promoting a culture of transparency can reduce dysfunctional behaviour as it gives everyone the ability to see what everyone else is doing. Nevertheless, transparency can be problematic: a culture of openness can be abused.

CONCLUSION

To summarise the discussion, individual behaviours are largely determined by the behaviour of the people around. Group behaviour is a result of specific beliefs, values and practices that are dependent on the organisation to which people belong and the particular sector or industry in which they operate. This forms the basis of an organisation's culture, which then evolves and is adapted differently at each level of the organisation.

Multiple subcultures exist in an organisation; as EY executive director Patrick Healy expressed it, 'the culture of the trading floor may be very different from the one of the back office'.

Looking at the culture of an organisation as a whole in order to understand and attempt to channel individual behaviour might therefore be misleading. Many other drivers and forces individually determine behaviours, and simplifications or generalisations should not be sought. It may therefore be necessary to look in more detail at the different cultures within an organisation.

Roundtable 2: London, December 2013

Building on the first exploratory roundtable hosted in September 2013, ACCA invited others known for their interest in corporate culture for a second meeting the following December to discuss the set of hypotheses further. This roundtable was also hosted by ACCA UK's Internal Audit Network Panel.

The session brainstormed a number of ideas and made suggestions for understanding what could lead to functional behaviours – understood as behaviours 'promoting the long-term success and sustainability of an organisation while creating value for all stakeholders'.

Most hypotheses clearly resonated in participants, though some argued that the emphasis was a bit too much on individual behaviour rather than group behaviour.

INCENTIVES AND INTERESTS OF PEOPLE VERSUS PROCEDURES AND RULES

Research and case studies tend to suggest that incentives offered and people's interests may cause individuals to override corporate procedures and rules. The first roundtable partly confirmed this assumption though it was believed that such dysfunctional behaviours could be contained when a culture of accountability existed and reliable sanctions were in place.

Considering behaviours as a spectrum where both ends are extreme cases (ie risk-seeking versus risk-avoiding), one participant suggested that we 'shift the bell curve' and 'engage with this great middle' rather than focusing on a couple of bad apples. The distinction between incentives and rules also struck ACCA member Alastair Goddin as an interesting nuance because he believed that 'most people would see incentives as being implied rules anyway'; for him, people understood incentive structures as an 'overarching piece of guidance' and most people would assume that in general 'incentives are aligned to company law and a company's best interests'.

HOW EFFICIENT IS REGULATION IN CHANNELLING FUNCTIONAL CORPORATE BEHAVIOUR?

Recent examples of dysfunctional behaviour in the UK's health sector and banking industry seem to validate the assumption that regulations and codes on corporate governance and risk management have not helped to promote functional behaviours – a topic largely discussed in the first roundtable. Again here, one stated that 'principles-based organisations beat rules-based organisations every time'. While assuming that most people are generally good, on delegate thus asked to focus the debate on what means could actually be used to stimulate them to do better.

Quite contrarily, group head of risk at 1st Central Insurance Daniel Roberts claimed that 'greed is faster and smarter than regulation', hence codes that are 'principle-based or ethics-based will only apply to people with ethics and people with principles; [which] is why we have regulation'. Nevertheless, Roberts also argued that, when badly designed, regulation 'could be as bad, or worse, than no regulation at all'.

Ian Rushby, former chief financial officer of a major oil company, having also chaired the Audit Committee of the UK Ministry of Defence, stated that what seemed most critical in channelling corporate behaviour was the influence of unwritten rules.

What is in the 'DNA' of an organisation's culture, what gets you noticed and promoted, and how do these rules get passed along?

To understand what influences behaviour, former PwC auditor Matthew Leitch suggested looking at 'which pay arrangements maximise or minimise dysfunctional behaviour', an aspect reported in greater detail in *Culture and Channelling Corporate Behaviour: Summary of Findings*.

Dr Graham Wilson introduced the group with academic findings on what motivates people. Admittedly, scholars have long concluded that 'to get people to behave purposefully, they must feel in control', they must have a clear understanding of where the organisation is going, and a readiness to sign up to it. Research has demonstrated that challenge, recognition and responsibility were key motivators and that people should be given a sense of development and improvement if functional behaviour was to be encouraged; these views are developed in detail in *Culture and Channelling Corporate Behaviour, Appendix 1: Review of the Academic Literature on Organisational Culture*.

TONE AT THE TOP VERSUS OTHER TONES

Though the influence of tone at the top was not discussed in so much depth, Roberts declared that 'each one of us is a tone from the top of where we are, and our tone is the one that will influence the ones around us'; therefore, this project should aim to 'change the thinking of enough individual executives', so that they will then 'change the people they work with'.

On a side note, Rushby observed that this would make an interesting case for the role of the 'fourth estate' and the influence of popular culture on beliefs and behaviours. He believed that British reality TV show 'The Apprentice' might have participated in legitimising certain types of dysfunctional behaviour, doing a huge disservice to business. Leitch agreed, adding that not only the bad behaviour shown on the screen were damaging for business, but the one of everyone else on the show, including popular and intelligent comedians and the commentators; all seemed to accept and be happy with the idea that business is like that, and anyone behaving differently is doing the wrong thing. For delegates, this might have given greater credit to the belief that dysfunctional behaviours are the guarantee to success in business.

COGNITIVE BIAS AND GROUPTHINK

Looking at what affects decision making, Emma Sturdee reported outcomes from the Board Intelligence's research project 'The Board is Dead. Long Live the Board'. According to the think tank' findings, boards can be trained in dealing with biases and groupthink so that they become more knowledgeable and aware of what can

adversely affect their decisions. Leitch also reminded the group that 'choices are framed to us' and the environment heavily influences any decision-making process. In this line, Leitch suggested that simple mechanisms could be put in place to encourage constructive disagreement, such as writing down opinions before voicing them. He also added that boards should beware of the feeling that 'consensus is ultimately more important than being right'.

As also discussed in the first London roundtable, providing better-quality information to the board was mentioned as key to making better decisions. Most delegates agreed that the information feeds to boards should be improved in transparency and objectivity, regretting an over-reliance on credit rating agencies, which seem to be giving a full and true picture of how businesses are doing.

BOARD COMPOSITION AND GROUPTHINK

Lastly, the role of non-executive directors (NEDs) was discussed. Sturdee claimed that NEDs are expected to 'be on top of everything that is going on' in a company, while being able to make informed decisions although they only spend a few days each year in a company. On another hand, ACCA member Brian Abrey said that directors should admit their weaknesses, where critical, and actively engage in filling any gaps in their knowledge, if relevant.

While one noted that individuals involved in corporate failures continued to be appointed to quite similar roles, Rushby questioned the recruitment process for directors and Roberts called for 'a more aggressive ban on those who failed', arguing that no

accountability can be achieved without an 'examination side' and a 'punitive side'.

CONCLUSION

Overall, what seemed to be driving this conversation was that, first and foremost, behaviours are not uniform, that every single organisation is different, that different 'risk appetites' exist at different levels of an organisation and that no rule could ever work in perpetuity.

As food for thought to conclude this summary, one of the authors presented the group with recent research conducted by New York psychologist Dr Paul Babiak and British Columbia's Professor Robert Hare, the world's pre-eminent expert in psychopathy and a regular adviser to the FBI. Their investigation found that business leaders are four times more likely to fit the profile of a psychopath, than are members of the general population.

Admittedly, leaders need charisma and a certain degree of self-centredness to succeed, but neither of these traits is unique to psychopaths. Other recurring characteristics found in the hundreds of profiles studied, however, also included an important lack of empathy, callousness, deceitfulness, and incapacity to experience guilt, all being typical traits of a psychopathic individual.

As discussed in *Culture and Channelling Corporate Behaviour: Summary of Findings*, the topics of leadership and how leaders influence the character of organisations, both positively and negatively, need further research.

Roundtable 3: New York, January 2014

Building on findings from the two exploratory sessions held in London, discussions in New York focused on three core questions.

- Do incentives trump regulation?

- How do boards influence culture and drive behaviours and is there anything they should do differently?

- How can culture most usefully be assessed and, having done so, what actions should follow?

DO INCENTIVES TRUMP REGULATION?

The discussion of regulation played the ice breaker. Paul Sobel, chairman at the Institute of Internal Auditors, asked the group whether regulation was intended to influence the outcome or the process to get there; as in previous roundtables, it was widely agreed that no regulation could be written so precisely as to cover all paths to the desired outcomes, and Sobel assumed that 'this was probably where people started gaming rules and procedures'.

Another participant expressed concerns about regulation crafting and considered the process as being 'social engineering' in the sense that regulation was 'created by a political format' reflecting 'just someone's political view'. This explained why some organisations would not fully commit to it: a view that had also been expressed during the first London roundtable.

None of the participants wholly agreed that incentives (not only related to pay) do systematically trump regulation;

nonetheless director of financial reporting policy at the CFA Institute, Matt Waldron, mentioned a recent survey of 382 financial services executives, conducted by *The Economist Intelligence Unit* for the CFA Institute (2013), which revealed that 53% of respondents consider that their career progression would be limited if they were not flexible on ethical standards.

According to Cornell Law School Professor Lynn Stout, 'people's proclivity to follow ethical rules' is driven by three core elements: people's 'natural inclination' (understanding of why it is important to be ethical), the 'social context' (tone at the top and perceptions of what other people are doing) and finally, the temptation ('if you can personally profit from behaving unethically, expect to see people give in to those incentives').

> People's proclivity to follow ethical rules depends on their natural inclination, the social context and temptation.

Consequently, if the context supports ethical behaviours, and incentives are designed to avoid offering temptation, then functional corporate behaviours can be fostered. The signals people get from authority, the risk and reward balance and the behaviour of those around are therefore key drivers and hence constitute evidence that boards can influence culture.

HOW DO BOARDS INFLUENCE CULTURE?

Participants tended to agree that 'actions and words at the top dictate how people feel and behave' although to various degrees, depending on the size and complexity of businesses. One participant cited the experience of a chief audit executive from the oil industry who reflected that, in some cases, the tone set at the top does not filter across the entire organisation and its value chain, particularly where organisations subcontract a part of their operations, thus producing a disconnection between the top and the front line.

The tone from the top must truly filter down through the organisation to be effective, and participants said that the immediate layers below boards were critical in that sense – an assumption that was shared by many others in London. When asked about the existence of a 'damp proof course' that distorts information coming and going to the board, participants recognised seeing instances of it, though not on a regular basis.

Many observed a profound lack of challenge at board level. Warner Johnston, head of ACCA USA, recalled his experience of sitting on a board and referred to it as a 'rubber stamp board' where 'there were never any dissents, members always voted the way the CEO wanted them to, they were briefed by staff prior to a vote, and they were no way of effecting any change'.

Another participant had a more nuanced view and stated that, in the finance industry, while the notion of

challenge was common in the US, it did not translate well in countries such as Japan, or in other European banking cultures.

Questioning the responsibility of chief executives when things go wrong, the opinions were mixed. Comparing investment banking with hospital management where chiefs of medicine must supervise 'super-duper willing specialists' without necessarily any specific expertise in their focused surgical practice, one believed that 'holding a CEO accountable for everything that goes on, no matter what the size of the organisation, is simply a fallacy'.

There are multiple tones from multiple tops in an organisation.

Vincent Tophoff, senior technical manager at IFAC, concluded that there is not one single 'tone' in an organisation but rather all the people in leadership positions have a responsibility to convey and sustain the appropriate tone for the people around them to follow. This assumption was prefigured in one of the London discussions, where it was said that 'each one of us is a tone from the top of where we are'; that is, each of us influences everyone around us.

UNDERSTANDING AND ASSESSING CULTURE

Sobel strongly believed that it was the role of boards to demand functional 'feedback flows and communication mechanisms to really understand what the people with boots on the ground are thinking'. Another also believed that bottom-up communication was key to understanding the difficulties and questions that people face from day to day but the main issue was to ensure that this information got to the top.

The discussion thus turned to employee surveys and their effectiveness in obtaining information and stimulating change. One participant detailed an experience that had proved highly disappointing, noting that the interpretation of results and implementation of change were far from being up to the level of expectations the survey had induced. People then 'get jaded', annual surveys become a box-ticking exercise and management focuses on ensuring that 'satisfaction rates are just as good as last year'.

To understand behaviours and cultures in an organisation, it was thus recommended that surveys be conducted 'no more frequently than every three to five years', using 'voting technology and focus groups' but also asking questions such as 'are the people who work for or with me aware of this or that?'; it was believed that

perceptions people have of others can sometimes be more valuable than the impressions they have of themselves.

As in London, participants also suggested proceeding to regular 'exit interviews after a cooling off period' while one simply concluded that, 'to get to know the culture of an organisation, go to the coffee machine'.

CONCLUSION

It appeared quite clear from this roundtable that, although the board is a strong influencer of corporate culture and behaviours (see the point on the signals you get from authority) it is undoubtedly not the only driver, particularly as businesses expand and organisations increasingly subcontract key parts of their activities. The culture on the front line, what influences those with 'boots on the ground', is not entirely reliant on the tone set at the top and getting to know and understand it is a difficult enterprise.

Conclusions from the ACCA–ESRC project recommend that a series of trade-offs be used in order to map out the culture an organisation has, then taking actions to get to the one it wants. A comprehensive cultural assessment should then include various methods such as surveys, meetings, workshops, interviews, audits and consultancy investigations.

Roundtable 4: New York, January 2014

Building on findings from the two exploratory sessions held in London, discussions in New York focused on the scope and limits of the board's influence, as well as three core questions.

- Do incentives trump regulation?

- How can culture most usefully be assessed and, having done so, what actions should follow

- What if anything can be done about executive pay?

The conversation began with participants giving their views on the set of questions above. The opinions expressed were very rich in scope, detail and expertise: what follows is only a condensate of the main points.

THE SCOPE OF BOARDS' INFLUENCE

Many participants recognised that boards do play a critical role in influencing culture and behaviour in organisations, first and foremost through the strategy they develop and the tone they set at the top. Recalling the immediate past history of the financial crisis, one participant stated that in many cases, firms self-destructed because of governance failures, a fact that in itself confirms the influence of boards on internal culture and behaviour.

Dr Stuart Mackintosh, executive director at the Group of Thirty, explained that, to better channel corporate behaviour, boards can 'hire the [appropriate] team, empower them, but also oversee them, establish the type of risk culture that they want in their organisation, establish the

business model and understand those risk cultures in the business model'.

Countering any suggestion that boards cannot be held responsible for their companies, another participant stated that 'boards should use their powers, exercise their responsibilities and grab onto their tools. Their powers are really limitless, the delegate said, they alone must hire the CEO; they alone must set the CEO's pay and the pay of the top five officers; they alone can declare dividends, sell the company and so forth. The tools that they have to exercise their powers include the use of the corporate secretary, the use of board agendas, the use of board meeting materials, the use of a calendar. Board members can decide what they're going to focus on and this is how they influence culture and behaviour.

THE LIMITS TO BOARDS' INFLUENCE

Although there was consensus on the power that boards have to influence culture, divergence arose when looking at how the tone from the top trickles down through the organisation. To some, it appeared clear that 'boards are far too removed from these large, complex organisations that are just thick with layers and sub-cultures' to have a real impact. Research conducted in confidential small groups by think thank OCEG seemed to support this assumption.

> The tone at the top has increasingly less impact the more complex the organisation is.

Another issue highlighted, and a recurring theme in other roundtables, concerned the level of involvement, objectivity and independence of board members; there was again broad agreement that boards could dig deeper. Citing figures from the National Association of Corporate Directors (NACD), a participant pointed toward room for growth in board involvement. Directors 'work about 236 hours per year right now on average in a public company; they could add a few more hours without losing their independence. Only 45% of them use the full board to oversee risk, including non-financial risk. They perhaps too often delegate it to the audit committee or in a rare case to the risk committee. Rarely is it a full board exercise. To their credit, 75% do go and visit offsite to see the operations of the company. But that should be 100%'.

A greater involvement of directors, a greater awareness of day-to-day operations on the frontline and a better understanding of risks faced daily would help directors make better-informed decisions that can really affect behaviours in an organisation. This had been raised in the previous roundtable, where participants had discussed enhancing bottom-up communication and information flows.

DO INCENTIVES TRUMP REGULATION?

Many participants were dubious about this question and found it too binary to be able to give a definite answer. One gave as example the debate on responsible tax versus incentives to promote tax minimisation. While it is legal to register a subsidiary in a country with low tax rates, in this frame the incentive for finding ways of

minimising tax does trump regulation as groups of companies can spread the profit around the group so as to reduce the tax paid in high-taxation countries; as the participant put it, this is technically legal but 'is it ethical?'

People will often seek to exploit loopholes in rules and procedures if given incentives to do so. The group proved indecisive due to the question's binary nature and it seemed that, as discussed in London, what is needed is not more regulation but rather more effective and better enforced regulation.

CAN CULTURE BE MEASURED?

The subject of measurement was quite central in this roundtable; measuring culture, measuring performance, measuring corporate governance, measuring investors' governance, all these aspects are abstract concepts that automatically invite subjective assessments but nonetheless remain critical in deciding the appropriate strategy to follow. There is no one single measure or number that could be used to encompass the many features and components of corporate culture or governance.

It was agreed that culture cannot be measured directly because much of it is hidden. As managing director at Deloitte Dan Konigsburg put it, 'one can only use indirect measures as proxies and at best, one can only get something like a sideways view of culture or see its shadow'. The act of measuring or assessing, especially if the outcome is to be reported, also implies some sort of gold standard that needs to be met. That will influence the results of any assessment and can be dangerous.

In a separate interview, Konigsburg said that making a judgement about corporate governance or culture in one's own firm is like making a judgement about the beauty of one's own children; a person's own children will always be the most beautiful to them!

Instead of measuring culture, it was rather suggested that one should try and get to know it by digging into the stories; it is less about measuring numbers and more about having a 'dialogue and [sharing] knowledge with peers and competitors', said Susanna Katus from eRevalue.

EXECUTIVE PAY

Participants also addressed the topic of executive remuneration and its relation to performance and sound business judgement. There seemed to be consensus that the inflation of executive pay has got out of hand and that incentives other than financial ones should be used more regularly to compensate CEOs and senior executives.

Boards would not want to send a message that somehow they have got a discount CEO.

Research on behaviour, referred to in *Culture and Channelling Corporate Behaviour, Appendix 1: Review of the Academic Literature on Organisational Culture*, strongly suggests that financial incentives do have an impact on output but only with highly repetitive tasks that do not require much cognitive efforts. Higher executive remuneration does not systematically produce higher performance, rather, it has become a means of measuring oneself against peers and competitors.

CONCLUSION

To summarise, this roundtable called for greater commitment by board members, greater quality of information and greater dialogue internally and externally, as the means of informing better decision making at board level and better understanding of corporate cultures and corporate behaviours in the organisation.

The relevance of measures used for assessing performance should be questioned and the imperative of assessing culture should be cautiously approached as it involves complex networks of influence and high levels of unpredictability. This is because human beings are prone to systematic subjectivity and error, an area further discussed in *Culture and Channelling Corporate Behaviour: Summary of Findings*.

Roundtable 5: Bengaluru (India), January 2014

This session was both organised and facilitated on ACCA's behalf by the CEO of consultancy firm ELMS, Surendra Shroff, and Professor Colin Coulson-Thomas. While this is only an abstract of their key findings, a fuller account of the discussion held is available online.

Before the debate, delegates were provided with a project briefing containing the initial set of hypotheses, as well as an interim report discussing primary findings from the previous roundtables. Addressing the initial set of hypotheses, there were many differences from the London and New York roundtables.

First and foremost, the positive role of regulation in creating healthy corporate cultures and functional corporate behaviours was far more acknowledged in India than anywhere else. The importance of having clear and unified organisational values was also recognised as a strong contributing factor.

DOES REGULATION IMPROVE CULTURE?

Regulation seemed to be much more positively regarded in India than in Europe or the US. Participants believed that rules and procedures help 'prevent unjust discrimination and play an essential role in protecting core values'.

For some, value-based sustainable business would be inconceivable without being supported by regulation.

The absence of regulation had most often resulted in huge economic, social, environmental and human costs, and participants evoked the 1984 Union Carbide Bhopal gas disaster that inflicted untold human misery and suffering, and resulted in the catastrophic destruction of environmental and natural resources. Regulation thus appeared essential for participants as, for instance, it encourages businesses to respect health and safety requirements and not to tolerate activity that is knowingly toxic to life.

HOW DO CORPORATE GOVERNANCE REQUIREMENTS INFLUENCE CULTURE AND WHAT ARE ORGANISATIONS DOING TO CHANGE CULTURE?

It was strongly believed that 'ownership structure is what influences corporate governance'. Even so, one participant argued that 'today's mission statements like "to maximise shareholder returns" or "to be number one in our market" are simply not deep enough to galvanise hearts and minds of employees and the wider stakeholder community'. To influence culture, or engage in cultural change, participants suggested that organisations 'clarify the value they provide to their stakeholders' and 'understand their place within the business ecosystem'.

For participants, a healthy culture is one where 'practices are aligned with the organisational values' and employees have a sense of 'commitment and loyalty'. A healthy culture is fostered 'when organisational leaders and employees alike begin to walk the talk' and when organisations 'go beyond seeing sustainability and social responsibility as a mere business opportunity'.

Participants believed that young people now seek to achieve effective personal and professional development by being authentic and true to their values. To them valuing the authentic self and the authentic organisation go hand in hand.

To effect change, participants advised that organisations improve accessibility for, and inclusion of, all stakeholders; communicate freely and frankly; train and empower; facilitate and lead change; and become more responsible and accountable.

WHAT CAUSES GROUPTHINK?

The need to be one among others is what influences an individual to give in to groupthink. The fear of rejection if one does not flow with the group is often the cause for following the masses. Social pressures and peer pressure may alter decision-making processes and the group suggested ways of identifying and preventing biases, ie by being more receptive to feedback and open to suggestions or criticism; also, by comparing present decisions with earlier ones and identifying flaws in similar situations.

For participants, bias eradication can be achieved through knowledge, communication, training, bias awareness programmes, or mixed group discussions. Boards too can diffuse it through communication, past history, surveys, or analysis of past decisions.

Summing up the discussions, ELMS CEO Surendra Shroff stated that: 'unity of purpose, clear vision and responsible leadership are required to build a framework that provides the right balance between over regulation and voluntary compliance'.

Taking part in the discussions, Greenwich University professor, Colin Coulson-Thomas, argued that new forms of leadership and governance were required to change the emphasis on top-down management, and to strive to 'make it easier for people to do the right things, and make it more difficult for them to do the wrong things'.

Speaking as the chief guest, in his keynote address pro-vice chancellor Jain University and national coordinator of Lokanithi, Dr Sandeep Shastri emphasised a disconnection between policy and decision makers on one hand, and the average citizen on the other, saying that 'there is no culture without people; people need to be given the opportunity to build a better tomorrow, and this required integrity and trust, and this needs to come right from the top'.

Roundtable 6: Dubai (UAE), January 2014

This session was both organised and facilitated by the CEO of consultancy firm ELMS, Surendra Shroff and Professor Colin Coulson-Thomas. While this is only an abstract of their key findings, a fuller account of the discussion held is available online.

Before the debate, delegates were provided with the project briefing containing the initial set of hypotheses, as well as an interim report discussing primary findings from previous roundtables.

Going through the initial set of hypotheses, a key finding in Dubai was the significance of leadership in influencing culture and preventing dysfunctional behaviour. Taking part in the discussion, the CEO of a real estate company stated that 'in this part of the world we look up to and are proud of our leaders as they have given us a strong sense of normative culture and functionality which has helped our society thrive and grow'.

THE ROLE OF LEADERSHIP IN INFLUENCING CULTURE

Tone and action at the top were recognised as key to maintaining ethical integrity in an organisation. One participant said that 'people on top should consistently be seen to "walk the talk and not just talk the walk"', in other words the tone at the top should be about leading by example. A recent parking incident involving H.H. Sheikh Mohammed Bin Rashid Al Maktoum UAE prime minister and ruler of Dubai, and a parking attendant at the Dubai Mall, was cited to illustrate the impact of the actions of those at the top.

In this incident H.H. Sheikh Mohammed Bin Rashid Al Maktoum, who was driving by himself, turned up at the Dubai Mall. Unknowingly, he happened to park his car wrongly. He was challenged by the parking attendant on duty, who did not recognise the man he had challenged and to whom he issued a warning. The attendant was shocked and fearful about what might happen to him after he learnt that the person was none other than the prime minister himself. He was pleasantly taken aback and surprised upon receiving special commendation from H.H. Sheikh Mohammed Bin Rashid Al Maktoum the next day. The story received extensive coverage in the media and the lesson learned was that a common man going about his duty earnestly had nothing to fear.

The tone at the top matters internally and externally and one participant admitted that 'now there is a shift towards recognising the need to [have an] impact on the society at large'. Although this is a welcome change from how things used to be, participants recognised that there was still a need to go further. Risk assessments are carried out but 'seldom or never are ethical considerations assessed'. It may thus prove difficult to measure or assess whether the organisation has got its tone and action at the top right.

HOW DO CORPORATE GOVERNANCE REQUIREMENTS INFLUENCE CULTURE?

Requirements such as having increased external and independent representation on boards, and involving diverse stakeholders at senior and board level discussions, surveys, focus groups, etc. are being put in place by organisations to promote inclusion and strengthen brand identity. Forming high-impact teams to determine the difference between present culture and desired culture is also another practice where information is gathered for designing interventions. Standard corporate assessment tools are used to assess the outcomes of such interventions, but as one participant put it, 'while these and other governance requirements are a force for the good, their true potential and dividends for the wider society are yet to be realised'. It thus appears that regulations and codes are indeed perceived as positive inputs, although the value of their outcomes in practice as yet to be seen.

Participants also said that there were basic divergences between Occidental and Oriental cultures.

> While cultures in Europe and North America seem more information oriented, cultures in the Middle East seem more relation oriented.

Regulation alone was not seen as capable of improving corporate culture.

UNDERSTANDING INCENTIVES AND MOTIVATION

Rather as in previous discussions, participants claimed that 'incentives can impede rounded growth' and there cannot be two sets of rules for the risk-takers and the rest of the organisation; incentives must be used in a fair and consistent manner, as well as with clarity of intent and purpose, to prove really effective and drive motivation.

As in India, participants tended to believe that intrinsic motivation is the most powerful force. For them, it is sustained when individuals feel challenged and are supported in accomplishing tasks; when they have choice and autonomy, and when they get recognised for their work. As one participant put it, 'talented and committed people perform and are motivated by their inner urge to grow irrespective of incentives'. This also helps cultivate trust in the organisation, which in turn promotes 'creativity, teamwork, empowerment, reliability, loyalty and openness'.

For participants, the existence of trust was an essential precondition for any healthy culture. Also, they considered that 'the organisational culture should enable and empower pursuance of joint interests of shareholders and stakeholders alike in the broader interest of promoting economic, social and environmental wellbeing'; 'profit with responsibility is the new mantra' said another, otherwise organisations going with an eye to profit maximisation only 'promote self-interest and short-termism' instead of 'building an inclusive and sustainable future'.

Participants then discussed who within organisations understands best how incentives work in practice. For them, employees, top leadership and management all have a responsibility for ensuring that incentives are understood and adequately designed; for this to happen, 'there is a need to

encourage dialogue as communication is key to progress and innovation; most often we miss out on the most obvious in the absence of a fearless conversation' said one.

The prime responsibility of boards and management is to achieve organisational objectives, and they may succeed in doing so through creating a culture within which 'everybody has a shared sense of responsibility and ownership for doing the right thing; the board's role is to create the conditions and the environment for ethical conduct to foster'.

Perhaps, in light of the banking and other high-profile corporate failures, the questions that need to be asked are these.

- Are those forming these regulations empowered to do so?

- What is the right balance between regulation and free enterprise and how can this be best achieved?

- Where is current regulation failing and what can be done to correct this?

- Are current measures to improve and bring on board independent and impartial voices adequate?

These and similar questions will need to be answered satisfactorily, in order to ensure that culture is not undermined by regulation.

Roundtable 7: Brussels, February 2014

For this session, credit must be given to the ACCA team in Brussels, whose work to build durable relationships in the European capital enabled us to gather experts and highly representative business practitioners around the table.

Before the debate, delegates were provided with a project briefing containing the initial set of hypotheses, as well as an interim report discussing primary findings from previous roundtables.

One of the key points validated during the Brussels' discussion was the differing views on the influence of codes and procedures in effectively driving functional behaviour and promoting healthier corporate cultures. While compliance was perceived as a box-ticking exercise and a bureaucratic burden in countries such as the US or the UK, it was much more positively viewed in places such as India and Dubai, where regulations had actually nurtured a greater sense of responsibility in business.

In Brussels, participants tended to concur with the views expressed in New York and London. The discussion thus addressed the role of boards in influencing culture and behaviour by looking at how decisions are made in the boardroom.

THE COMPOSITION OF THE BOARD, ITS SIZE AND LEADERSHIP STRUCTURE

Many around the table recognised that the composition of boards was critical in determining how they will function, treat information and make decisions. Hilde Blomme, deputy CEO at the FEE, stated that 'it is not only generation, it is also gender; it is people from similar background or not and that obviously comes in the composition as it stands before you do one piece of work or you have one discussion'.

Though conceding that 'a diverse board is better than a non-diverse board', one participant cited the example of the Royal Bank of Scotland as a case in which the board failed to challenge the decisions made by the bank's chief executive alone. Member of European Parliament Ashley Fox argued that 'what we need are intelligent, qualified and strong-minded individuals who have the capability of holding that over-mighty individual to account'. For ACCA's Paul Moxey, one of the authors on this research project, one such person would not be enough and it was suggested that 'a critical mass of two or three people' was needed to 'feel comfortable in raising issues'.

Participants thus considered the size of the board and its relation to effective decision making. When corporate governance requires multiple committees, gender quotas or workers' participation, boards become over-populated, even though it is often believed that smaller boards work better than larger ones. Secretary general at EuropeanIssuers Susannah Haan explained that the complexity of business requires 'people with different knowledge, with different skill sets, in order to cover the breadth of the business itself' thus leading to substantially large boards; however, an optimum number of members on a board would be not more than eight or nine, if decisions are to be made efficiently.

Considering the role of outside directors in influencing fair and balanced decision-making processes, Moxey argued that there were probably not enough 'feeling of association for the directors, other than when they are in a meeting' and it might be that external directors would be more 'willing to challenge if they actually had the opportunity to talk to other non-executives'. Some strongly agreed with this point and one reasserted the importance of ensuring that the adequate flow of information goes to the board, and that enough communication is achieved before the very deliberation.

BALANCING THE NATURE AND DEPTH OF INFORMATION GOING TO THE BOARD

Participants extensively discussed the importance of balancing information going to the board. Inge Boets, member of the management committee at the Belgium institute of directors GUBERNA, affirmed that board members should 'feel fully comfortable to ask questions, to ask for additional information and to ask for additional meetings if they feel they're not comfortable with the information they are being presented with'. Many concurred with that and Blomme added that 'it is for board members to question, to have to invest more time to actually get to grips with the information' coming to them.

> Boards need to take responsibility when they are getting too much information.

Haan, however, believed that 'certain decisions should not go up to the board' and that a real issue was that 'everyone expects the board to be involved in these'.

THE ROLE OF SHAREHOLDERS

Looking at the involvement and commitment of boardroom members, participants questioned the participation of shareholders in boards' decision-making processes. One participant stated that shareholders do have the right and obligation to get sufficiently informed and constructively challenge decisions made at board level.

Although some thought that expectations of shareholders were exaggerated, others believed that 'a number of shareholders, particularly big institutional shareholders, are very much interested in a more sustainable outlook and long-term investment'.

Participants informed the research team that, with a belief that transparency promotes higher level of accountability, the European Commission has decided to look at initiatives that would enhance shareholder identification and procure ways of facilitating dialogue between organisations and large investors.

CULTURE AND FUNCTIONAL BEHAVIOUR

By the end of the session, participants tackled the question of what leads to a healthy culture and for Haan, it was quite clear: 'you must fire the rainmaker'. As repeatedly said in other roundtables, there cannot be two sets of rules in an organisation and sanction mechanisms must be in place, and enforced, if a culture of accountability and trust is to be created.

As she put it, 'if you have somebody who is making the firm a lot of money and who's breaking the rules and you let that person get away with it that teaches everybody about the culture of that organisation; I think there's research to show people remember bad things about five times as much as the good ones'.

Looking at what discourages dysfunctional behaviour, Blomme thought whistle-blowing should be emphasised and seen more as a safety valve for an organisation rather than a threat.

CONCLUSION

Maxime Delhomme, member of the Paris Bar, claimed that more study or autopsies of past scandals, notably in cases of fraud, should systematically be conducted so that a kind of typology could be generated – one that could be referred to in order to improve detection of future breaches of best practices.

What appeared clear to many is that no lessons seemed to have been learned from previous corporate failures. Full investigation into malpractice should be as automatic as it is in other industries such as in aviation; there, each incident becomes a case study and future pilots learn primarily from the mistakes of their predecessors.[3]

3. http://www.newstatesman.com/2014/05/how-mistakes-can-save-lives

Roundtable 8: London, March 2014

This was a meeting of ACCA's Chief Financial Officers' group. Everyone present was a CFO, or had been a CFO or held a similar position. Most but not all participants were ACCA members. After the usual introductions the participants were given a brief summary of the main points from roundtable discussions so far.

A participant with a background in construction kicked off with safety and work place accidents. He pointed out that people will ignore limits, eg speed limits, if the consequences seem remote. In a banking context, if the prospect of earning a large bonus is weighed up against the remote possibility of suffering a sanction for breaching a regulatory requirement it is unlikely that regulation will have much effect.

Another participant described how individual performance assessment had changed from one where a person's bonus was driven entirely by their own performance to one where one-third is based on the performance of the group and one-third is based on business unit performance. This has made a big difference to teamwork. Names and semantics can be important. 'We had a "compliance and ethics" function and its name changed to "ethics and compliance". People laughed but the emphasis moved from being on procedures and rules to ethics. This has helped and people's targets now include health and safety and raising issues. This seems to have the support of the CEO.

TONE AT THE TOP IS KEY

Another suggested that the main influence on culture comes from the CEO, not the board, adding that the CEO and the executive team can drive behaviour by behaving the right way themselves. That sends a more powerful message than monetary and other incentives. If you have the right CEO setting the right tone you will probably not have the wrong type of incentives operating. Another pointed out that the board is nevertheless an important influence on the CEO, particularly in smaller companies.

> Part of setting the tone at the top is about telling the organisation what is important. It is also important that everyone feels they are 'in it' together.

This will not happen where people at the top live by different standards from those expected among staff or where they have a totally different pay structure.

One important issue for boards is to consider the company's stakeholders, including shareholders. You cannot keep them all happy and if you tried you would be doing too many mutually contradictory things. The board needs to interpret, make adjustments and try to keep it on the right course; like an oil tanker, a big company cannot rapidly change tack.

BALANCING SHORT-TERM VERSUS LONG-TERM STRATEGIES

One CFO argued that the CFO's role should be as the conscience of the business and the CFO should be prepared to stand up to the CEO if necessary. A CFO from a retail organisation emphasised the importance of having a long-term focus on value creation, rather than short-term profitability. Shareholders need to understand this and long-term value creation should drive the company's incentive arrangements – eg no short-term bonuses. Such a focus means that performance meetings can focus on inputs rather than outputs. Another CFO pointed out that not all businesses can afford to look at the longer term. A CFO from one infrastructure industry said that in their industry no one makes a decision in less than five years so there is no point in having short-term incentives.

A consultant spoke of how sales targets were no longer included in a person's objectives as they want people to take a longer view. This has transformed the way that people work together. The focus moves from getting an annual bonus to building a long-term future together. There was general consensus that such long-term thinking is still relatively rare. For one, long-term projects are very much driven by short-term targets.

Investors tend to be more interested in the short term. Some companies are leading investors into looking at measures more suited to assessing longer-term value creation. This means looking more at input measures than output measures. This can include such things as setting the strategy with milestones along the way, and softer measures. One person said that the 'ignorance of our (institutional) investor base sometimes almost defies belief because all they care about is the P+L and the dividend'.

The conversation shifted to country differences. A multinational can have difficulty getting local suppliers to

accept its values but the bigger problem seems to be that large companies from one country may not act as responsibly in a developing economy as they would in a developed one. Local populations differ too. Where people are more concerned with just surviving they are not going to be so concerned with culture and just want to earn money. Similarly, some CEOs may be really strong ethically but others will only be interested in the bottom line.

MOTIVATION AND GENERATIONS

There could also be a generational effect, with young people who need to earn money or get established in a career having less concern about cultural or ethical issues. There are generational differences in attitude to risk. Younger people are usually more willing to take a risk and know that if it goes wrong they can get another job. Older people are less likely to risk their jobs. One CFO also noted that younger people seem more interested in corporate responsibility. People tend to stay in jobs for relatively short periods now and that can mean that they are more driven by money and, for instance, are less concerned with loyalty (to and from the company) than their predecessors. Annual redundancy programmes do not encourage loyalty.

Being a good employer can be expensive. A focus on cost saving driven from the top, however, is likely to lead to poor management and employee practices. By contrast, being a good employer can be a competitive advantage. Unfortunately, in the public sector the focus is more likely to be on driving down cost as there is no public-sector equivalent of competitive advantage.

It is up to the group CEO to make sure that the right values are set and embedded throughout the organisation, but making those values stick can be 'very, very tricky'. It may be easier in a young organisation than an older one.

ALIGN AND EMBED CORE VALUES

Getting values and principles right is extremely important as no set of procedures can cover every situation. So 'an awful lot of time should be spent in cascading those values'. Core values should be the same throughout a multi-site company even if there is some local interpretation.

Turning to mergers and acquisitions, while a financial system can be integrated in a month, integrating culture will take much longer and may never happen. This has been the cause of some big problems for some conglomerates.

Customer–supplier relationships can be an indicator of culture. One leading retailer cited seemed to have 'a deliberate cultural policy of being really awful to suppliers and is now paying the price for that because they are finding it difficult to get longer-term relationships'. Another retailer was a pleasure to work with. Some suppliers in the construction industry are now being asked to do behavioural assessments for their customers. This is likely to make quite a difference.

CONCLUSION

In summary, the conversation was dominated, more than at any of the other roundtables, with tone at the top. This permeated every other consideration from performance management, to ethics and setting values, and to employment practices and sanctions.

Roundtable 9: Hong Kong, April 2014

After investigating the European market (London and Brussels), being given a hint of the American views (New York) and a sense of how things get done in emerging economies (Bangalore and Dubai), Hong Kong was the last and most obvious stop for the research team.

Thanks to the ACCA team in Hong Kong the discussion included highly regarded business practitioners and experts. ACCA's Head of Policy for Asia Pacific Markets flew from Singapore to facilitate the discussion on behalf of the research team – who joined the debate from London by webcam. A full report has been produced by the facilitator and published in the May 2014 edition of ACCA's *Accountancy Future* magazine; the following is a condensate of its key findings.

Participants enriched the Asian context of the debate, and in many regards, it seemed that Hong Kong stood somewhere at the cross-junction of Occidental and Oriental views, particularly with regard to perceptions of regulation. The session also addressed key areas such as the influence of boards on corporate culture; whether and how performance targets drive optimum behaviours; and whether incentives trump regulation.

CORPORATE GOVERNANCE AND PEOPLE

While explaining the inception of the research project, one of the researchers said it built on the idea that 'if anything goes wrong, it seems to involve people', adding that 'regulations and procedures don't really seem to help as much as [people] would like them to'. These comments were quickly echoed by Michael Cheng, research director at the ACGA, who strongly believed that

'corporate governance is really about people; you can have the best corporate governance code, the best regulations, and the best systems and procedures, but it is ultimately about people'.

In Asia, people want to comply but they do not always understand why. Ellie Pang, vice president at the Hong Kong Exchanges and Clearing Limited, observed that in China, regulators now typically conduct extensive training whenever rules are introduced, to explain their purpose and clearly point out how they improve corporate governance. It was felt that a healthy corporate culture will take time to establish, especially in emerging economies, given that the benefits may not be apparent. This also helps to explain why regulations in Asia tend to be more rules-based rather than principles-based.

A principle is a rule that hasn't been written yet.

Managing director at Moody's Michael Taylor, reflecting on his significant international experience, observed that regulations tend to 'go through cycles'; participants in a more mature market may fight for a principles-based system if they perceive rules as restrictive and inflexible, but when the clear rules are taken away, the same people start craving clarity about how principles are applied in specific scenarios. Regulators then clarify a principle, which really means a swing back to rules.

The importance of the human element in governance was reiterated when the topic of 'corporate memory' came up.

Jamie Allen, secretary general at the ACGA, noted that a strong corporate culture includes 'the continuity within the company, the continuity of leadership and the continuity of management... [These] are as important as corporate memory, where members of the company know what happened to the company years ago'. Taylor echoed this assumption and claimed that 'the next financial crisis begins when the last person who remembered the previous one retires'.

Regarding management's tenure and the resultant strength of the corporate culture, one delegate asked whether the typical family-owned structure of Asian businesses – with 'a member of the family with controlling equity who really does take quite a long-term view' – may promote good corporate governance, contrary to the general perception that family-owned businesses broadly lack governance. Partner-in-charge at KPMG Maria Lee weighed in with her China experience and stated that 'MNCs are [not always] better... I have seen local incorporated listed companies with good corporate culture because of the "tone at the top"'.

While having 'skin in the game' was considered a strong incentive for good governance, delegates were asked to consider the 'left-pocket/right-pocket' phenomenon, where owner-managers may have deep-seated perceptions that they have full ownership over the businesses and therefore may (inadvertently) engage in related persons' transactions that profit themselves or their contacts, at the expense of minority shareholders. In recognition of this challenge, markets in Asia – for example, Hong Kong – have instituted some of the world's strictest

connected transaction rules to address the prevalence of such transactions in family-controlled companies, the delegates observed, although they accepted that no rules can be 'water-tight'.

PERFORMANCE TARGETS AND OPTIMUM BEHAVIOUR

As regards the relationship between performance targets such as key performance indicators (KPIs) and staff behaviour, many delegates cautioned that 'excessive measurement' could cause more harm than good. One delegate felt that 'the US style of management mantra – "if you can't measure it you can't manage it"' – could be a mistake. He added that meeting KPIs could sometimes be to the detriment of the business. To illustrate this, he referred to the Heisenberg's uncertainty principle in quantum mechanics. This universal law states that *position* and *momentum* of particles are two variables that cannot be measured simultaneously; in other words he said, 'the more you measure something, you pinpoint it, the less you know the direction of it'.

Others highlighted how the change in profile of individuals put in charge could affect an organisation's functional (or dysfunctional) behaviour. 'The move towards [recruiting] MBAs – bringing people with academic understanding of business but without a real training from the bottom – has directly led to some of the problems we have now: KPIs, excessive measurement, stock options', said Allen.

One participant observed that some Chinese MNCs suffered from the dysfunctional KPIs that short-term expatriates need to meet. Because it is challenging to demonstrate sustained growth, some expatriates ended up shifting their focus from the top line to the bottom line, and some engaged in questionable 'quick fixes' such as aggressive 'tax planning'.

CULTURE AND BEHAVIOURS

Participants had mixed views about the influence of the tone from the top. One delegate wondered whether 'high-minded' corporate philosophies could always be maintained across borders: 'As soon as they operate in [markets where the enforcement of the regulations is relatively loose], they start behaving rather badly'. Yet there was a feeling among delegates that a company does not have to operate in markets where the board or management find it hard to implement the corporate culture and values. 'If you look at our footprint and where we operate, we operate in countries where we're comfortable; we're not going to subvert the culture for a local', one said.

Apart from moral, altruistic grounds, delegates were persuaded that it makes good commercial sense not to trade the company's culture for short-term benefits; as one delegate put it, 'you don't have to do business in markets [where you do not share the values]'.

Other participants had differing views and Zelinda Ng, director at TMF Group, believed that there would be subcultures in different jurisdictions but operating a global business meant that certain markets could not be left out.

Notwithstanding this, being in the less developed market meant that they could strive to have a positive influence; as another pointed out, Hong Kong, for instance, used to be a rather corrupt market.

CONCLUSION

The discussion in Hong Kong was particularly enlightening as it exposed views that seemed half way in between London and New York on one hand, and India and Dubai on the other. Hong Kong is a real mixture of cultures and can really uncover where, why and how rules and procedures might sometimes be effective while, elsewhere, local traditions are still tightly rooted and may overcome any other codes or regulations.

From the research team's perspective, another key finding in this roundtable concerned what one participant called a reluctance to give feedback and recognition specific to the Chinese culture. Another participant with Occidental background and operating in Asia also observed very specific cultural differences in relation to the concept of authority and interactions with superiors; in Asia, it appears difficult to encourage more junior staff to speak out and very often, 'they will wait until they discern what they think is the boss's view before they make an opinion of their own'.

List of roundtable participants

Abrey, Brian – Associate Partner at St James's Place Wealth Management

Adamson-Mohan, Sujata – Engagement Manager at ACCA USA

Allen, Jamie – Secretary General at the Asian Corporate Governance Association (ACGA)

Alma, Marjella – Chief Executive Officer and Co-Founder at eRevalue Ltd

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Berendt, Adrian – Owner at Berendt Consulting Ltd and Chair of the ACCA Governance, Risk and Performance Global Forum

Best, Rhonda – Director at Alexander Bain

Blackburn, Sarah – Managing Director at Wayside Network

Blomme, Hilde – Deputy Chief Executive Officer at the Federation of European Accountants (FEE)

Boets, Inge – Member of the management committee at GUBERNA

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Brown, Stephen – Director, Corporate Affairs at the Noble Group

Cebulec-Gardner, Mauricia – Independent Consultant

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Chudy, Peter – Managing Director at UBS

Colling, Oliver – Consultant at North Highland

Corkish, Julie – Business Development Manager at ACCA UK

Couse, Jillian – Engagement Manager at ACCA Canada

Davies, Brandon – Chairman of Premium European Capital

Delhomme, Maxime – Member of the Paris Bar

Fasoldt, Ruth – Business Development Manager at ACCA USA

Fox, Ashley – Conservative Member of the European Parliament for the South West of England and Gibraltar

French, Lisa – Technical Director, Guidance and Practice at the International Integrated Reporting Council (IIRC)

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Goddin, Alastair – Enterprise Risk Officer at Willis

Gould, Stathis – Head of Professional Accountants in Business at IFAC

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Haan, Susannah – Secretary General at EuropeanIssuers

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Katus, Susanne – Vice President, Business Development Americas at eRevalue Inc.

Kerecsen, Zsofia – Policy Officer, Company Law and Corporate Governance Unit, Directorate-General for the Internal Market and Services, European Commission

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Lajoux, Alexandra – Chief Knowledge Officer at the National Association of Corporate Directors (NACD)

Lau, Kevin – Director, Hin Yan Consultants Ltd

Lee, Maria – Partner-in-charge, People, Performance and Culture, KPMG China

Leitch, Matthew – Director at Matthew Leitch Associates Ltd

Lyon, Jamie – Head of Corporate Sector Insights at ACCA

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Mackintosh, Stuart – Executive Director at the Group of Thirty

McElligott, Tom – Former Chief Financial Officer at Pandrol

McWilliam, Rob – Finance Director of amazon.co.uk

Mitchell, Scott – Chair of the Open Compliance and Ethics Group (OCEG)

Mutchell, Rob – Chief Financial Officer at BP Venture Capital and Head of Finance of the Alternative Energy business within BP

Moxey, Paul – Head of Corporate Governance and Risk Management at ACCA

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Schu, Pauline – Corporate Governance Researcher at ACCA

Sobel, Paul – Chairman at the Institute of Internal Auditors

Spretter de, Neville – Managing Director at AdLibero2 Ltd

Spretter de, Helen – Business Analyst at Defra

Stout, Lynn – Distinguished Professor of Corporate and Business Law at Cornell Law School

Sturdee, Emma – Corporate Affairs at Board Intelligence

Swanson, Dan – President at Dan Swanson & Associates

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Thamotheram, Raj – Raj Thamotheram Associates

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Wong, Kelvin – Former Chairman of the Hong Kong Institute of Directors

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BENGALURU (INDIA) AND DUBAI

Al Manzil, Dubal – Financial Consultant

Al Noor Investments, Dubai – Investment Advisor

American Power Corporation – Director

AVISHKAR LTD, Bengaluru – HR and Management Consultant

Bengaluru Hilton – Marketing Manager

Conrad Dubai – Director HR

DIFC, Dubai – Admin Manager

Dubai Chamber of Commerce – International Business Network Manager

Dubai Tourism Authority – Manager Advisory Services

Freelance – Management Consultant

Government of Karnataka, India – Director, Commercial Tax

HYATT Regency, Dubai – Training Manager

Indian Business School – Senior Lecturer (Financial Management)

Institute of Chartered Accountants of India – Local Representative

Institute of Chartered Financial Analysts of India (ICFAI) – Director

International Cricket Council, Dubai – Head of Strategy and HR

Jain University, Bengaluru (JGI Group) – Pro Vice Chancellor

JP Morgan – Senior Consultant

Karnataka State Cricket Association, Bengaluru – Governing Council Member

MHD LLC – Marketing Manager

NBD, Dubai – Manager Securities and Exchange

Park HYATT Dubai – HR Manager

READ Centre (NGO) – Director

Real Point, Real Estate Consultancy, Dubai – Chief Executive Officer

State Bank of Mysore – Board Director

VISA – Senior Consultant

Wasl Property Group, Dubai – General Manager Marketing