

Boardroom Questions

Behavioural Drivers and Controls



Why behavioural drivers and controls are an important business consideration



Integrity has been found to be positively related to financial performance⁴

94% of Australian directors overwhelmingly agree that trust is important to their organisation's sustainability¹

90% of CEOs and CFOs believe that improving culture would improve the value of their company. Only 15 percent believe their culture is where it needs to be²

21% greater employee profitability is demonstrated in organisations that possess an engaged culture³

Why the 'soft stuff' matters

People are at the heart of every organisation, and it is the **human factors that drive decision-making and organisational performance**. It is necessary to consider the human factors that influence attitudes and behaviours (so called 'behavioural controls', or 'soft controls') to really understand what is happening within an organisation. Behavioural drivers and controls, their presence and their absence, have a major impact on the operating effectiveness of hard controls (such as processes, policies and rules) and are usually the root causes of financial, operational and reputational risks.

How can we identify, assess and report on culture and behaviour?



Perform a root cause analysis to identify the behavioural drivers for repeat issues, fraud, non-compliance or misconduct.

Consider behavioural drivers and controls in the development and review of key operational processes to ensure behaviours appropriately support the structures, systems and 'hard' controls put in place.



Understand how organisations promote desirable behaviour and prevent undesirable behaviour by reviewing the presence, quality and effectiveness of key behavioural controls instruments (e.g. Code of Conduct, Whistleblower Policy and Risk Management Framework).

¹ KPMG AICD Survey, 2018

² 'Corporate culture: Evidence from the field', John Graham, Campbell Harvey, Jillian Popadak & Shiva Rajgopal, Federal Reserve Bank of New York, October 2015, www.newyorkfed.org

³ 'The Right Culture: Not Just About Employee Satisfaction', Jim Hartner, Annamarie Mann, Gallup, <https://www.gallup.com>

⁴ 'The Value of Corporate Culture,' Luigi Guiso, Paola Sapienza & Luigi Zingales, Journal of Financial Economics, July 2015 www.sciencedirect.com

Boardroom Questions



- 1 Do we really understand our organisational culture and behaviours and how it impacts the control environment?
- 2 How do we assess, monitor and report on cultural and behavioural risks?
- 3 Is the organisation going through significant reform where pockets of staff are either reluctant or are fearful of the change?
- 4 Are there a number of instances of repeat issues, non-compliance or misconduct across the organisation?
- 5 How do we get assurance that our staff behaviours support current business processes?

Actions for Boards to consider



- 1 Ensure that organisational policies, such as the Code of Conduct, Whistle-blower Policy and Risk Management Framework are effectively embedded within the organisation to manage behavioural risks
- 2 Consider behavioural drivers and controls as part of risk, compliance and assurance programs
- 3 Define your organisation's desired culture state, including alignment with strategy and risk appetite, understanding of roles and responsibilities, and decision making
- 4 Ensure staff at all levels understand what behaviours are expected from them
- 5 Establish monitoring systems for identifying and reporting behavioural issues, concerns, non-compliance and misconduct
- 6 Ensure adequate mechanisms are in place to recognise and reward good behaviour; and address undesirable behaviour

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