

# Leveraging corporate culture as a strategic asset

Successfully embedding a robust corporate culture continues to be one of the key focus areas for banks in the UAE. Maryam Zaman and Luke Ellyard emphasize the importance of establishing corporate culture policies, communicating these effectively to stakeholders, and conducting stringent reviews.

The trope “culture eats strategy for breakfast” may be hackneyed but remains relevant. While canny strategizing can help set targets, it is likely that a strong corporate culture contributes to achieving them. A bank’s corporate culture is the collection of written and unwritten norms, principles, values, and attitudes which govern its activities, and is of great interest to all stakeholders of a bank. Strong corporate culture practices can signal transparency and accountability to shareholders, provide greater certainty to depositors and borrowers, and inspire confidence in the stability of financial markets on the part of regulators. Strong corporate culture practices may also serve to demonstrate, to wider society, the fairness of the financial system and its commitment to sustainable growth.

It is not surprising that corporate culture features extensively in the Central Bank of the UAE (CBUAE)’s new corporate governance regulations and standards. Issued on 18 July 2019, these require banks to develop written codes of conduct, conflict-of-interest policies, insider-trading policies, and whistleblowing mechanisms. The responsibility of establishing and approving these policies and mechanisms is assigned to the board, which is also responsible for establishing a strong internal control environment to ensure the new policies are fully implemented and adhered to across the bank. By placing the responsibility of establishing corporate culture policies and practices with the board, the CBUAE aims to reiterate that a strong corporate culture is crucial to the health of the banking system. And that it is likely to be successfully embedded within a bank if the board is held accountable for its effective implementation.



## Prioritizing culture and leading by example

Banks in the UAE generally have an understanding of what constitutes good corporate culture, and possess the knowledge and expertise needed to develop appropriate policies and mechanisms. Indeed, many major UAE banks already have these policies in place. The 2019 KPMG Audit Committee Pulse Survey found that corporate culture is one of the priorities of regional audit committee members—further proof that banks often recognize the importance of corporate culture to business outcomes.

Banks do, however, face challenges in implementing these mechanisms and assessing the strength of their corporate culture. In order to successfully implement culture-specific policies, banks may consider including periodic culture-related training and awareness sessions; disclosures of potential and actual conflicts; related party transactions; personal share dealings; and periodic declaration of conformance with the policies, procedures and code of ethics. All these elements could be included as part of employees' key performance indicators (KPIs) and linked to their compensation structure. It may be advisable therefore for senior management and the board of directors to lead by example and set the tone from the top.

Continuous and repetitive communication across the bank is essential for successful implementation. Banks cannot expect their employees to understand and implement the policies if they only hear about them on rare occasions.

## Review procedures

As a next step, when planning a review of corporate culture, the following indicators may be considered:

- Management's view of risk culture, results of external assessments, and employee feedback in an effort to gauge the tone being communicated from the top
- The number and nature of customer complaints and attrition rates to ascertain whether customers are being treated fairly
- The number and nature of employee complaints and attrition rates to ascertain whether employees are being treated fairly
- Timeliness and accuracy of public disclosures as a measure of openness and transparency
- Social media and news coverage to assess the bank's reputation.

When conducting a culture assessment, reviewers should be aware that assessing these indicators in isolation to one another may lead them to incorrect conclusions. For example, a low number of whistleblowing calls may indicate a robust ethical environment. However, a low number of whistleblowing calls, coupled with high employee attrition rates, can be a sign of reluctance on the part of employees to speak up and report unethical and illegal activities. Conclusions therefore should be arrived at based on a holistic assessment of corporate culture indicators.

These indicators can be measured during standalone culture reviews covering the bank as a whole. This approach may include culture reviews in risk-based internal audit plans or as part of the bank's ethics and compliance monitoring program.

## The role of internal audit

Another approach is to assess culture through a soft-controls review while conducting internal audits. Soft controls, such as management attitude and behavior, would have an impact on the operating effectiveness of hard controls (e.g. policies, procedures, rules) and can frequently be the root causes of financial, operational, regulatory and reputational risk.

In fact, the 2019 KPMG Audit Committee Pulse Survey found that 39% of Middle Eastern regional audit committee members, compared with 23% in the US and Canada, and 33% in Europe, are considering including culture and soft control reviews in their internal audit plans.

Most UAE banks submitted an implementation road map of the new corporate governance regulations and standards to CBUAE by the end of December 2019. Full implementation is required by July 2022. As a next step, banks could also introduce corporate culture reviews. This could be challenging but important, as it would kick-start the long process of transforming corporate culture from a source of risk into a carefully managed strategic asset.

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