

Don't Let Culture Risk Hold Back Your Business

In executing the risk oversight function in the normal course of business as well as in business acquisition, board members need to take into account not only trending issues but also existing risk that sometimes overlooked and not deemed as important as other risks.

Risk oversight is part of the board's function to ensure that the enterprise has in its operations an adequate and robust system for identifying, prioritising, managing and monitoring key risks to that enterprise.

We are much drawn to issues such as geopolitical, digital, fraud, data privacy. Those are still relevant this year, but we need to also taken into account existing risk which might not be considered as priority, such as culture.

The values and behaviour of an enterprise set up its culture. Sometimes we overlooked to ensure that the enterprise culture needs to align with where the enterprise wants to be in the future, its strategy and objectives. Misalignment of culture can lead to different path taken that contradicts what it needs to reflect.

Poor culture can lead to unethical behaviour which risking the enterprise to regulatory sanction, lawsuit, and reputational damage. Social media has its contribution making it viral and unmanageable to enterprise as public can easily post information on unethical behaviour of people representing the en-

terprise. You might recall news about online drivers that exhibit bad behaviour to customers, including threatening and sexual harassment. This is just an example why culture should be part of the board's top list for attention this year.

Strong control policies must extend beyond individuals. To help protect the enterprise from the broader array of this threat, controls must be designed to monitor this area. A robust control environment must also include oversight of third-party intermediaries, since illicit behaviour by those parties can easily become a company liability as part of an enforcement action by regulatory agencies.

Program to nurture and shape the intended culture should be reinforced. Placing a whistleblowing system can strengthen your ethical and anti-fraud program. Monitoring function should incorporate cultural assessment into its plan, evaluate how engaged are employee with the enterprise values, review the adequacy and effectiveness of related policies and practices and how it align with the enterprise vision.

Culture risk is not only relevant in the normal operations of an enterprise, but also important to be looked at in a merger and acquisition activity.

Forcing a merge of culturally unfit enterprises can put off the success and continuity of the business. Daimler and Chrysler is an example. When German Daimler (the makers of Mercedes-Benz) merged with American company Chrysler in the late 1990s, it was called a "merger of equals." A few years later it was being called a "fiasco." Conflicting cultures had the two divisions at war as soon as they merged. Differences included their level of formality, philosophy, and operating styles. By 2000, major losses were projected and, a year later, layoffs began. In 2007, Daimler sold Chrysler.

Therefore, culture factor should be included in the due diligence activity, assessing whether the target's culture, values and behaviour will create potential issues or not. This will also help in designing the correct culture alignment plan post-merger, speed up the integration and increase the likelihood of success.



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KEY POINTS

- Poor culture can lead to unethical behaviour risking enterprise to regulatory sanction, lawsuit, and reputational damage.
- Culturally unfit enterprises when merged can lead to business failure.
- Include culture risk into your assessment and design the appropriate treatment.

THE POWER OF BEING UNDERSTOOD

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