



# How Accountants Can Leverage Corporate Culture for Success

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**H**igh-profile accounting scandals have grabbed headlines over the years, sparking extensive reforms to curb accounting fraud and corporate misconduct. The most infamous of these scandals often showcased toxic corporate cultures as a significant factor (Amato, 2012), prompting regulators to place greater emphasis on fostering ethical cultures and strong “tone at the top” leadership.

For example, the Committee of Sponsoring Organizations (COSO) internal control framework explicitly references “corporate environment” or “internal environment” (Leland 2023; Kong, Latry, Bah, and Biswas, 2018), which comprise the corporate culture influencing and permeating its controls and operations (Deloitte, 2004). Similarly, the UK’s Financial Reporting Council references “corporate culture/culture” 55 times in its *Review of Corporate Governance Reporting* white paper (FRC, 2022).



The effects of bad corporate cultures are well known, while the positive effects arising from good corporate culture receive less attention in the press. Examples of both are included in Table 1.

However, the concept of corporate culture appears to not have been operationalized and is rarely mentioned in accounting and audit standards. As a result, accountants lack guidance on how to measure or use it.

A written code of ethical culture does not guarantee good corporate conduct (Contreras, Dey, and Hill, 2020). Is there a better way to capture and measure corporate culture? Scholarly literature from the accounting and finance profession suggests various ways.

There have been various scholarly papers using measures of corporate culture to analyze issues of accounting and auditing relevance. These measures vary from those based on firm activities, manager characteristics or geographic location.

## KEY TAKEAWAYS

### FINANCIAL STATEMENT AND ANNUAL REPORT PREPARERS:

- Investors value a strong corporate culture.
- Firms with good CSR/philanthropic activities trade at a premium.
- Highlighting CSR performance in financial statements is recommended, though not mandatory in the U.S.

### AUDITORS:

- Higher corporate culture levels reduce corporate tax avoidance, financial reporting irregularities and misconduct.
- Social capital is used as a proxy for corporate culture in research.
- Client locale should be considered when evaluating inherent risk in audits.
- Strong corporate culture correlates with lower audit fees.
- Using corporate culture indicators in audit planning is acceptable and not akin to unfair profiling.

### MANAGERIAL ACCOUNTANTS:

- Corporate culture improves the design and use of managerial accounting systems.
- Higher corporate culture leads to more efficient resource use and lower debt capital costs.

Please see Table 2 on the TXCPA website for more details on the articles published and their findings.

One measure of corporate culture is corporate social responsibility (CSR) or philanthropic activity by the firm. Another measure of corporate culture is its environmental and organizational characteristics, which include:

- Attitude about uncertainty;
- Perceived competition level;
- Supportiveness;
- Centralization;
- Formality; and
- Rule-based orientation.

Another measure of corporate culture focuses not on the firm but on its personnel, namely, management. Management value orientation identifies what managers consider to be paramount and might value the most in planning and executing their activities, including:

- Innovation;
- Outcome orientation;
- Attention to detail;
- Team orientation;
- Stability; and
- Respect for people.

However, the measure of corporate culture that was employed the most often is based on the location of the firm's headquarters. A significant stream of literature in accounting, finance and other business disciplines has begun to use a measure of social capital in geographical areas to proxy for corporate culture.

The notion of social capital as used in this article was coined by urban planner Jane Jacobs (Alexiou, 2006), who used it to describe the informal apparatus of "self-government ... forged by neighborhood networks" (Jacobs, 1961, p.183).

Over time, various disciplines have developed unique methods to measure social capital, aiming to better explain and predict various phenomena. In the realms of accounting and finance, scholars have crafted a distinct measure of social capital, one that considers the intricate social structures within a community that promote cooperative norms and pro-social actions.

The data is based on information about county level voter turnout, census response rates, total number of social organizations and total number of nonprofit organizations. The Northeast Regional Center for Rural Development (NRCRD) at the Pennsylvania State University updates this social capital for all U.S. counties annually.

Having explored various metrics for evaluating corporate culture, this article shifts focus to their practical relevance for accounting and auditing. It examines how these cultural indicators can enhance the roles of financial report preparers, auditors and managerial accountants. Additionally, it provides a detailed look at how matching corporate culture metrics with accounting and audit functions can optimize performance and ensure financial integrity.

For financial statement and annual report preparers, one of the key takeaways is that investors place high value on indications of a strong corporate culture. Research shows that firms whose CSR or philanthropic activity exhibits good corporate culture trade at a premium to others. This suggests that

## THE IMPORTANCE OF CORPORATE CULTURE

Corporate culture is crucial for attracting and retaining top talent, particularly for new graduates who prioritize the following key factors.

### WORK ENVIRONMENT

Graduates seek supportive, inclusive workplaces where they feel valued and comfortable.

### CAREER DEVELOPMENT

Graduates look for employers who invest in employee growth through training, mentorship and clear advancement opportunities.

### JOB SATISFACTION

Positive cultures lead to higher job satisfaction, making employees eager to join and stay with happy, engaged teams.

### WORK-LIFE BALANCE

Flexibility and remote work options are highly valued, reflecting a commitment to work-life balance.

### REPUTATION

A strong corporate reputation enhances resumes and future career prospects, making reputable companies more attractive.

### EMPLOYEE WELL-BEING

A focus on health and wellness, including mental health support, is important for those seeking employers who prioritize their overall well-being.

### VALUES ALIGNMENT

Graduates look for employers with values that align with their own, including ethical practices and a commitment to diversity.

### INNOVATION AND CREATIVITY

Companies that encourage new ideas and dynamic work environments appeal to graduates looking to make meaningful contributions.

### NETWORKING AND RELATIONSHIPS

Graduates value environments that foster strong professional relationships and networking opportunities.

preparers of financial statements would do well to include and highlight CSR performance, though it is not currently mandatory in the United States.

For auditors, it's important to note that higher levels of corporate culture are associated with lower incidences of corporate tax avoidance, financial reporting irregularities and corporate misconduct. These findings are from research where social capital was used as a proxy for corporate culture. Thus, in planning audits, auditors might use client locale as a factor to consider when evaluating inherent risk.

Interestingly, research also reveals that strong corporate culture, as indicated by social capital within a specific geographic region, correlates with lower audit fees.

Therefore, it appears that using corporate culture indicators as part of an audit planning tool is acceptable. Auditors employing this approach would not be vulnerable to accusations of unfair profiling of audit clients analogous to racial profiling, which can lead to excessively harsh police tactics and varying rates of IRS audits (Elzayn et al., 2023), especially if this practice is already being used for audit pricing decisions.

Finally, for managerial accountants, research reveals that corporate culture as measured by organizational traits and manager value orientation are associated with better design and use of managerial accounting information systems. A higher level of corporate culture, as captured by social capital, is associated with more efficient use of corporate resources, as well as lower costs of debt capital.

Research shows that there are different ways accountants can measure corporate culture, from firm activities to manager characteristics to geographic location. Perhaps more importantly, the same scholarship shows how these measures indicate how well a firm does in its operational, financial reporting and compliance objectives. Now it's up to accountants and auditors to make intelligent use of them.

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**TABLE 1. EXAMPLES OF CORPORATE CULTURE'S EFFECTS**

Bad Corporate Culture	Good Corporate Culture
<p>Toshiba's corporate culture emphasized blind obedience to superiors, discouraging whistleblowing. Toshiba was delisted from the Tokyo Stock Exchange in 2023 due to financial fraud scandals.</p>	<p>Though the larger corporate culture at WorldCom was bad, within the internal audit division, the culture was described by its head, whistleblower Cynthia Cooper, as one of "honesty, transparency ... stepping up to the plate and swinging the bat to do what you needed to." Cooper and her team helped unravel the WorldCom fraud.</p>
<p>Enron's corporate culture was notoriously toxic, incentivizing employees to achieve financial targets at any cost. Ultimately, accounting fraud led to the company's demise.</p>	<p>In testimony that uncovered the Lockheed bribery scandal, William Finley of the CPA firm Arthur Young shared the following with Sen. Charles Percy about his firm's corporate culture. Sen. Percy: "Would it be looked upon as over-moralizing if you advise a client with respect to ethics?" Finley said, "If we are troubled by the conduct of the business, our obligation is to bring it to attention."</p>

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