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Wil, 7.12.2023

Internal Control of a CSV Strategy Using Control Self-Assessment (CSA)

1. The Imperative of Aligned Governance in Modern Enterprises

Today's business landscape, shaped by Porter and Kramer's Creating Shared Value (CSV) paradigm, emphasizes the need for companies to achieve financial success while addressing societal and environmental concerns. This shift emphasizes proactive strategies for creating positive impact over the traditional Corporate Social Responsibility (CSR) model. Marga Hoek supports this, citing CSV as central to supporting the UN's 17 Sustainable Development Goals (SDGs). A qualitative study by Ebba Engström & Sandra Johansson in Sweden found that using the shared value approach made it easier to quantify environmental issues. They suggest that this may be one reason why many of the companies studied that switched from a CSR strategy to a CSV strategy were more successful and invested more in environmental sustainability. However, the implementation of CSV strategies in global companies requires coherent governance structures that align different hierarchies and regions around common goals.

2. Impact of Information Asymmetry on Strategy Alignment

Sidney Yoshida's 1989 study, "The Iceberg of Ignorance," found that top management often has less information about certain company problems than lower-level employees, leading to imperfect decision making. Since then, management concepts such as quality circles, employee involvement teams/kaizen/ISO 9000... have helped mitigate the iceberg problem. Other trends such as outsourcing, globalization, escalating external requirements, the strong trend towards a "project economy", the widespread use of big data and AI, to name just a few, have, in my view, widened the information gaps across hierarchical levels, making it difficult to achieve comprehensive understanding and goal alignment between different organizational levels.

Especially when it comes to thinking about and deciding on future business strategies and opportunities, the need for accurate information about potential customers and their problems and needs is of paramount importance. Critical insights held by frontline employees often elude top management, broadening information gaps between hierarchical levels. This asymmetry can exacerbate the challenges of successful alignment, including unclear objectives, lack of goal alignment, uninvolved stakeholders, poor communication, and inadequate performance metrics.

3. Increased Board Accountability and the Need for Effective Governance

Many stakeholders are increasingly holding the Board of Directors accountable for the efficiency and effectiveness of internal control and governance. They are demanding that the board scrutinize the proposals and suggestions made to it and not just passively wave them through. When it comes to implementing a CSV strategy, a study in Sweden (Ebba Engström & Sandra Johansson) has shown that companies need to work more cross-functionally to be successful, which also needs to be supported and governed by the board. The Business Judgement Rule (Sawyer's) underlines the assumption that the board acts in the best interest of the company. This underscores the need to reduce information asymmetries and increase collaboration between different hierarchical levels.

4. How can the Internal Audit Function Support Aligned and Effective Governance

I believe that a Control Self-Assessment (CSA) program could effectively complement the traditional role of internal audit. It is usually internal audit that introduces the process and remains actively involved. In most cases, CSA begins with workshops facilitated by a knowledgeable internal auditor or external expert. Experienced internal auditors often own the process, conduct the training, and ensure the participation of management and work teams.

5. CSA: Bridging Information Gaps and Improving Internal Controls

CSA is a technique and structured process that enables managers and employees to assess the effectiveness of their own internal controls and risk management processes through facilitated team workshops or surveys. It allows employees to contribute their knowledge and judgment simultaneously and anonymously, and helps reduce information asymmetries within large groups. CSA can be used to support all five components of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework: control environment, risk assessment, control activities, information and communication, and monitoring activities.

It is therefore a valuable tool for conducting oversight, especially for international organizations with operations around the world. Workshops can emphasize soft controls and cross-functional issues, areas where CSA is particularly effective. Recognized improvements include better vertical communication and the dissemination of strong governance values throughout the organization. These benefits make it a valuable tool in supporting and governing a CSV strategy.

CSA has proven its value in reducing asymmetric information in the various COSO elements:

Control Environment:
By having knowledgeable individuals assess the controls in their areas of responsibility, the internal control environment, including factors such as ethics, operating style and a healthy feedback culture, can be improved. This could lead to a shared, company-wide understanding of the Group's key activities and objectives, as well as potential threats and opportunities.

Risk assessment:
By involving many people in risk identification and assessment, CSA helps to capture diverse perspectives, reducing the likelihood of overlooking environmental, social and governance (ESG) and other critical risks due to information asymmetry. It can enable group members to assess the adequacy and effectiveness of controls to mitigate risks and identify any gaps or weaknesses that need to be addressed.

Control activities:
When employees actively participate in assessing control activities, CSA helps identify gaps or inefficiencies in controls, leading to more effective controls and reduced information asymmetry. Informal "soft" controls are easier to identify and evaluate. A CSA program can help the Board of Directors meet its governance and compliance responsibilities with respect to a chosen CSV strategy and provide assurance to external stakeholders.

Information and Communication
CSA engages employees in discussions about potential risks and controls, facilitating better communication channels. This helps to share insights and information about a selected CSV strategy across the organization, reducing gaps in knowledge and understanding of risks among different groups.

Monitoring activities:
Monitoring and assessment through CSA help reduce information asymmetry by ensuring that control weaknesses or emerging risks are identified and addressed in a timely manner.

6. Conclusion: Internal Governance of a CSV Strategy using CSA

Implementing a CSV strategy (CSV = Creating Shared Values) in global companies is very demanding and requires coherent governance structures that align different hierarchies and regions towards common goals. However, trends such as outsourcing, globalization, increasing external regulatory requirements and the trend towards a "project economy", to name but a few, have widened the information gaps between different hierarchical levels. These trends make it difficult to align goals across organizational levels.

When it comes to implementing a CSV strategy, a study in Sweden has shown that in order to be successful, companies need to work more cross-functionally and have a healthy feedback culture, which must also be supported and governed by the Board of Directors.

The CSA (Control Self-Assessment) method is a valuable governance tool, especially for international organizations that operate globally. It is a technique that facilitates the joint assessment of risks and controls, promotes transparent communication and fosters a culture of risk awareness, cooperation and accountability. Workshops can focus on soft controls and cross-functional issues, areas where CSA is particularly effective. Experience has shown improvements in vertical communication and enforcement of governance values.

When CSA is aligned with the COSO framework and supported by internal audit, it provides a structured approach that can help reduce information asymmetries between organizational levels and strengthen governance.

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