FINANCIAL CRISIS AND CHANGES IN MANAGEMENT CONTROLS IN BANKS
KEY CONCLUSIONS

- The financial crisis of 2008 struck with different intensity in Iceland and Denmark and elicited different responses in the banks affected. The Icelandic banks were faced with a major crisis of trust and compliance requiring radical restructuring of management controls. In the Danish banks existing controls were, at most, reconfigured to deal with a new business environment.

- To deal with the crisis the Icelandic banks restructured cultural controls, increased the size of risk departments, enforced formal compliance, introduced new performance measures, changed motivation systems and formalised administrative controls.

- The crisis led to new coercive external transparency in both the Icelandic and Danish banks, where certain controls were made transparent, observable and governable by external agencies.

- Management control professionals, including management accountants, risk managers, compliance managers and internal auditors served as “translators” of change while the Chief Executive Officers of the banks acted as change agents.
ABSTRACT

The financial crisis of 2008 hit banks in Iceland and Denmark with different intensity. There was a difference in how management controls changed in response to the crisis.

Icelandic banks redefined cultural controls, introducing new values as a “clean break” with the banks’ pre-2008 practices. They formalised their risk management, compliance and internal auditing practices, and hired more employees to perform these functions. Further, they strengthened and formalised their policies and procedures to ensure consistent practices. The Danish banks adapted their administrative controls to new regulatory requirements. Risk management, compliance and internal auditing were relatively mature processes in the Danish banks before the crisis, and the adjustments required to adapt to changed compliance requirements were less extensive. Management controls in general seem to play a critical role in responding to and moving forward after a crisis. The top management tier – especially the Chief Executive Officer (CEO) – is critical in managing change and defining the path forward. The managers and employees involved in designing and operating management controls are critical in translating and enacting the necessary changes.
In 2008, the world was hit by one of the worst financial crises since the Great Depression of 1929-30. The crisis of 2008 had its roots in the financial market system, including the banking system, mortgage markets, interest rate management and investment markets.

It affected a broad spectrum of markets, institutions and companies, but the effects were most strongly felt in the financial sector, resulting in a series of collapses, bankruptcies, government bail-out programmes and subsequent new regulations and stricter compliance requirements in many countries.

Management controls are critical in supporting management decision making as well as controlling the behaviour of individuals and groups to ensure that the organisation meets its objectives.

Management control can be seen as a "package" – meaning that it is composed of several loosely coupled control types (Otley 1999; Malmi and Brown 2008). In the framework developed by Malmi and Brown (2008), which is used here, the five main control types are cultural controls, planning controls, cybernetic controls, reward and compensation, and administrative controls. These five control types include subtypes of controls that are shown in Figure 1 and explained in Table 1. This framework is also explained in a recent CIMA report (Hanslick & Bruhl, 2013).

**FIGURE 1: MANAGEMENT CONTROLS AS A PACKAGE (MALMI AND BROWN, 2008)**

<table>
<thead>
<tr>
<th>CULTURAL CONTROLS</th>
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<td>Clans</td>
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<tr>
<th>PLANNING</th>
<th>CYBERNETIC CONTROLS</th>
<th>REWARDS &amp; COMPENSATION</th>
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<tr>
<td>Long range planning</td>
<td>Action planning</td>
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<tr>
<th>ADMINISTRATIVE CONTROLS</th>
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<td>Governance structure</td>
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### TABLE 1: DIFFERENT TYPES OF MANAGEMENT CONTROLS (MALMI & BROWN, 2008)

<table>
<thead>
<tr>
<th>CULTURAL CONTROLS</th>
<th>The values, beliefs and social norms that are established to influence employee behaviour. Include processes e.g. hiring and ceremonies (clans), definitions of mission, value and vision that are formally communicated (values), and creation of visible expressions of a particular type of culture (symbols).</th>
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<tr>
<td>PLANNING</td>
<td>Processes and practices for setting objectives, targets and action plans in functional areas, thereby directing effort, behaviour and defining the standards to be achieved. Includes long-term planning and short-term action planning.</td>
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<tr>
<td>CYBERNETIC CONTROLS</td>
<td>Processes in which a feedback loop is represented by using standards of performance, measuring system performance and comparing that to standards, feeding back information about unwanted variances in the systems. Includes budgets, financial and non-financial performance measurement, as well as a combination (hybrids) of financial and non-financial performance measurements.</td>
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<tr>
<td>REWARDS AND COMPENSATION</td>
<td>The processes and practices that focus on motivating and increasing the performance of individuals and groups by achieving congruence between their goals and activities and those of the organisation.</td>
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<td>ADMINISTRATIVE CONTROLS</td>
<td>The directions of employee behaviour through organisation of individuals and groups (organisational structure), monitoring of behaviour (governance structure), and the process of specifying how tasks or behaviour are to be performed (policies and procedures).</td>
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This framework fits with the CIMA definition (CIMA, 2009) of what management accountants do. This includes a variety of tasks, such as designing and implementing corporate governance, risk management and internal controls, assuming responsibility for managing organisational policy, strategy and objectives, as well as providing information to managers (Seal et al., 2015). These tasks are necessary to successfully design and implement management controls.

Relatively little is known about how management controls change in companies after a financial crisis as severe as that in 2008 (Otley and Soin, 2014; Van der Stede, 2011). Even less is known about how controls change in banks, specifically during and after a crisis of this magnitude, which is the focus of this report. With respect to the management controls shown in Figure 1 and Table 1, the ultimate responsibility lies with the Board of Directors and the Executive Board assisted by the management functions mentioned above (Simons, 1999; Merchant and Van der Stede, 2012). Not much is known about how these groups take part in changing management controls in the wake of a financial crisis. Apart from showing how the management controls have changed, we aim to show how these different management functions have been involved in any management control changes caused by a financial crisis.

### OBJECTIVES

- To investigate how management controls in selected banks that were hit by the financial crisis in 2008 have changed.
- To explore whether the management controls shown in Figure 1 are affected differently by a financial crisis in the banks studied.
- To show how the professionals involved in designing and operating the banks’ management controls have been involved in these changes.
- To contribute to guidance of professionals faced with or wanting to prepare for financial crises.
The research was conducted in the three largest banks in Iceland and three Danish banks. The reason why Danish banks were selected for comparison is the common historical background of Iceland and Denmark.

The Icelandic banks were established on the basis of Danish law and practice, as Iceland was under Danish rule until 1944. After independence the similarity to the Danish banking system has continued. This minimized the overall difference between the banks selected for study.

We want to analyse the difference in impact of the financial crisis of 2008 on management controls in banks. Therefore, the most important criteria when selecting the Danish banks was that they should not have been hit as hard by the 2008 financial crisis as the Icelandic banks. The Icelandic banks essentially went bankrupt, had to lay off hundreds of employees, and were subjected to governmental takeover, extensive restructuring and external control in the period following the crisis. In contrast, we focus on Danish banks that managed the financial crisis without financial distress or being dependent on specific governmental support. From this group we selected three Danish banks that matched the Icelandic banks regarding number of employees (approximately 1,000) and the level and nature of banking activities. This match was based on a comparison between 2013 annual reports of Icelandic and Danish banks as well as available public information. None of the banks selected were publically listed.

We only focus on how management controls changed in the wake of the crisis and not on the causes of the crisis itself or why the crisis was so severe in the Icelandic economy. This has been done elsewhere (SIC, 2010).

Based on the management control framework shown in Figure 1, a total of 11 semi-structured questionnaires were developed – one for each management control element. However, as some control types are closely related, we combined questions about financial, non-financial and hybrid performance measurement in one questionnaire and action planning and budgets in another.

The questionnaires had a common overall structure including:

- Overall perceived importance of the controls
- Description of the current design of controls
- Description of the main operating processes for the controls
- Description of methods and tools used in connection with the controls
- Description of major changes that had been made to each control since 2008.

With the cooperation of either the Chief Financial Officer (CFO) or the Chief Internal Auditors in the participating banks, we matched the questionnaire themes to different managers and functional areas. In all we conducted 26 interviews in the six banks.

The interviews were conducted between June and August 2015 in Iceland and Denmark. Each interview lasted from 45 – 70 minutes, was transcribed and analysed using qualitative analysis methods and the software QSR Nvivo.
MAIN FINDINGS AND THEIR IMPLICATIONS FOR PRACTICE

The reactions to the 2008 crisis followed different paths in the Icelandic and Danish banks, illustrated in Figures 2 and 3 respectively. While the Icelandic reactions were survival-driven, the reaction in the Danish banks was mostly business-oriented and focused on adapting systems and processes to new operating conditions.

**FIGURE 2: THE PATH OF CHANGE IN THE ICELANDIC BANKS AFTER THE 2008 FINANCIAL CRISIS**

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<tr>
<td>• Layoffs and reorganisation</td>
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<td>• Questioning of values</td>
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<td>• Uncertainty about ownership of the bank</td>
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<td>• Separate restructuring divisions in all three banks focusing on asset and debt evaluation</td>
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<tr>
<td>• Interim CEO and board of directors take over bank management</td>
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<tr>
<td>• New ownership and restructuring is finalised</td>
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<tr>
<td>• Changes in legal structure and compliance requirements finalised</td>
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<tr>
<td>• Definition of a new mission, values, vision and strategy for the organisation</td>
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<td>• Clarity about the influence of economic measures such as capital controls and IMF intervention</td>
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<td>• Experience gained with the new and stricter compliance requirements</td>
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<tr>
<td>• New values permeate the organisation including attention to risk, focus on compliance and broader performance measurements</td>
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<td>• Favourable economic conditions fuel growth</td>
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**FIGURE 3: THE PATH OF CHANGE IN THE DANISH BANKS AFTER THE 2008 FINANCIAL CRISIS**

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<tr>
<td>• Risk assessments and forecasts based on the events of 2008</td>
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<td>• Formulation of strategic and tactical responses</td>
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<tr>
<td>• New strategies defined and implemented</td>
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<tr>
<td>• Regulatory responses (called “bank packages”) defined and implemented</td>
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<tr>
<td>• Overview of effects of crisis on financial institutions</td>
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<tr>
<td>• Refining internal compliance structures</td>
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<td>• Customer focus</td>
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<td>• Talent growth</td>
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<td>• Local and national competitive initiatives</td>
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Below is a brief description of the main findings regarding management control. Please refer to Table 1 for an explanation of each type of management control.

**CULTURAL CONTROLS**

The crisis of the magnitude that the Icelandic banks went through brought into question the fundamental values on which the banks had operated up until 2008. This led to a post-crisis redefinition of cultural controls in all three Icelandic banks. One manager in an Icelandic bank describes how the new CEO called all employees to a meeting shortly after the crisis:

"In the beginning of 2009 the CEO set up meetings where all the employees were invited. People thought the CEO was crazy, as most employees were concerned with putting out fires and had no time for thinking about strategy. We counted about 700 employees at that meeting. One of the tasks of the meeting was to define new values. It was a very democratic approach and actually very good for the bank."

(Icelandic Manager)

The role of the CEO in taking charge and defining new values and making a clean break with the values of the pre-2008 banks is described by managers as being of the utmost importance. This leadership defined new cultural references and enabled the employees to move on after an event that some described in terms such as "chaos", "panic", "turmoil" and "shock".

This is described differently in the Danish context, with values being re-evaluated as part of the normal strategic process. The crisis in 2008 was described as something that had to be dealt with on the basis of existing cultural controls, but not something that required re-evaluation of the entire value base of the organisation.

All six banks focused on cementing values in the organisation through hiring practices, social events and mentoring programs for managers and employees. However, hiring practices and training of new managers were given more focus in the Icelandic banks after the crisis. Due to the explosive growth of the Icelandic banks before 2008, finding new talent was a problem that some managers linked to the crisis in 2008.

"You know, 10 years ago we hired a person on an entry level, and very soon he or she would be in a senior position within some months or years...That is one of the reasons we had the economic crash." (Icelandic manager)

Today the training of new managers, exposing them gradually to new challenges and recognising the value of training and experience is a focus area in the Icelandic banks.

**PLANNING**

None of the six banks report any significant changes to the structuring of the planning process before and after the crisis. When talking about the importance of the planning process before the crisis, some managers mention that long-term planning in a bank where revenue and assets were growing by 50-100% a year (as was the case in the Icelandic banks) was difficult.

"It must have been a nightmare to keep the necessary overview. You could argue that we lost sight of the risks within the bank because of this." (Icelandic manager)

The long-term planning process in the Icelandic banks after the 2008 crisis was linked to a redefinition of the banks’ market position and the cementing of their new mission, values and vision. However, there was little focus on long-term planning in the Icelandic banks immediately after 2008 as the future and survival of the banks was uncertain. The importance of long-term planning grew as the fires of the aftermath were put out and business returned to more normal conditions.

"We basically did start (long-term planning) in 2010. Before that no plan had been formalised in the new bank. Obviously, some financial plans were made when capitalisation needs were estimated etc. But all management focus at that time was on day-to-day operations. Since 2010 we have been able to spend more and more time on trying to see what’s ahead as well as deal with the past." (Icelandic manager)

The Danish banks report no significant changes in the process or importance of long-term planning after the crisis in 2008. The importance of long-term planning is to a certain extent tied to capital management.

"Yes, it is important to the bank. Because it shows – based on the assumptions – our capital composition in the future as the various capital buffers mature. And it shows when we need new capital – or if we have too much." (Danish manager)
Although the planning process has not changed, most of the banks report changes in how the success of long-term plans are measured. The measurement of success has to some extent moved from relying on hard financial measures to including other non-financial and “softer” measures as well. These include measures of customer satisfaction, compliance, risk and employee satisfaction. Managers state that performance measurement has become more diverse since the crisis.

“…of course you have a lot of financial KPIs. But the KPIs that we have introduced now are not that focused on finance. So we are using them to move people in a strategic direction.” (Icelandic manager)

**CYBERNETIC CONTROLS**

Budgeting was in all six banks linked to a 12-month period based on formalised assumptions. None of the banks reported any significant changes in the budgeting process after the crisis. Both in the Icelandic and Danish banks the budget seems to have served as an “anchor” in the turbulence following the crisis. Or as one Danish manager stated:

“Some consider it a necessary evil – whereas we see it as a tool to help explain what is going on.” (Danish Manager)

However, today, 7 years after the crisis, all the Icelandic banks are considering adapting their budgeting practices to the so-called Beyond Budgeting approach (Hope and Fraser, 2003). The arguments in favour of this were the extensive time and organisational resources spent on preparing the traditional budget, the inflexibility of the traditional approach as well as the risk of being obsolete during the period. As opposed to this, none of the Danish banks considered radically changing its budgeting practices.

According to most of the banking managers in Denmark and Iceland, the crisis resulted in a shift in focus on what constitutes good performance and the types of measure used to capture that performance.

“I think that the change was the same as when you are driving on a highway and suddenly realise you are doing 150 km/hour. We were not restricted by liquidity or capital 10 years ago and that’s why we did not focus on it in the same way as we do now.” (Danish manager)

Financial measures such as return on equity, capital ratios, liquidity ratios and cost/profit ratios still seem to play the most important role in measuring the performance of the banks today. However, there is an increasing focus on using non-financial measures such as net promotor scores (a metric that measures to what extent customers would recommend the company), service quality and employee satisfaction to evaluate activities and employees. Furthermore, compliance with the banks’ corporate social responsibility policies was mentioned as an important area of measurement.

**REWARDS AND COMPENSATION**

In the wake of the crisis, the banks’ rewards and compensation (R&C) schemes have been subjected to a significantly increased regulatory focus. The Financial Supervisory Authorities in Denmark and Iceland have a stronger influence on the design of R&C schemes than was the case before the crisis. In Iceland, bonus payments are also the centre of significant public attention. Every year, for example, newspapers carry stories about bonus payments in banks and detail the amounts paid in bonuses based on their annual reports.

Compared to the Danish banks, the Icelandic banks have gone through a significant restructuring of their R&C systems – including the variable bonus component. Before the crisis, multiple R&C schemes were in place for different employee groups as well as ad hoc management bonuses based on subjective evaluations. Today one of the Icelandic banks does not use bonus schemes at all, while the other two have schemes with a significantly reduced scope and subjected to external regulation. Currently only about 10% of the employees have bonus schemes, the total bonus payment cannot exceed 25% of the total salary per year, some bonus payments are deferred, and in some cases clawback clauses are in effect.

Today, variable bonuses are more explicitly linked to non-financial criteria such as compliance where employees have to meet certain compliance targets.

“So today we are basing the bonus system on 65% for financial and operational metrics. We are taking into account both fees and revenues as well as cost… Then we have 35% that we call judgmental areas, and that is from 5 to 8 metrics where we are trying to stimulate responsible, good behaviour, including risk management and compliance. If you don’t meet the criteria within these areas, you may lose a good proportion of your bonus.” (Icelandic manager)
In the Danish banks, rewards and compensation schemes did not require a major overhaul in the wake of the financial crisis, although some developments and adjustments were made in the light of more customer-centred strategies following the crisis. “Then we have been looking at the criteria for awarding bonuses – not the direct link to sales which might promote inappropriate behaviour. There is much more focus on customer satisfaction, as well as total return – the long-term return – instead of just focusing on the short-term returns.” (Danish manager)

In the Icelandic banks, the administrative control-related responses to the crisis focused on establishing an organisation that was able to deal with the aftermath of the crisis and increase the formalisation of controls through written policies and procedures. In the months following the collapse of the Icelandic banks in 2008, a new organisational unit called “The Restructuring Department” was created in the banks. Its function was to delimit and control the critical task of interpreting and assessing the impact of the changed operating conditions on the bank as well as to recalculate assets and liabilities under these new conditions. No such departments were needed in the Danish banks. Furthermore, significantly more resources are now allocated to the risk management function in the Icelandic banks compared to what was the case before the crisis, and also compared to the Danish banks. The risk management departments in the Icelandic banks now employ 5-6 times the number of employees compared to similar departments in the Danish banks.

The crisis resulted in a significant increase in the importance of formal policies and procedures as a control mechanism in the Icelandic banks. Formalisation means documentation, management approval processes for new policies and procedures, internal and external reviews of compliance, as well as formal training of employees in the application of policies and procedures. The aftermath of the crisis emphasised the importance of having formally documented administrative controls. Or, as one Danish manager described the difference between documented and not-documented controls: “When you are in court it becomes easier to document what you have done regarding written administrative controls, whereas culture is more subjective.” (Danish manager)

Policies and procedures regarding compliance and governance have got significantly more top management attention. As one Icelandic manager mentioned: “The importance has increased greatly in the recent years. And the board of directors has been promoting good corporate governance and stressing that management and the staff comply with (written) rules.” (Icelandic manager)

Another significant change is that external agencies demand increased transparency of – as well as evidence of compliance with – policies which before the crisis were considered internal company affairs. This is evident in all the banks, but more often mentioned in the Icelandic banks. In some cases, governance and formal procedures for regulatory compliance have gained strategic importance in banking: “In a bank the focus goes straight from governance to strategic issues, whereas in a “regular” company the emphasis goes from strategic issues to governance issues. And to a wide extent it is the banking regulation which drives this development.” (Danish manager)

This formalisation of policies and procedures is a significant change since the financial crisis of 2008. Some management control professionals imply however that the pendulum might have swung too far in that “too much time is spent on ticking boxes” (Icelandic manager) instead of trying to “face the market which is our raison d’être” (Danish manager).
CONTRIBUTION OF MANAGEMENT CONTROL PROFESSIONALS

Most of the managers who were interviewed were involved in designing, operating and maintaining the "loosely coupled elements" of management controls. After the crisis, this role gained increased importance with new external compliance requirements and changing emphasis of performance measurement systems and new values. The role of these professionals is to interpret and to execute. The interpretation concerns for example new external requirements, such as the three lines of defence concept of the Basel framework (Basel, 2012). This interpretation is effected e.g. through the development of policies of procedures that are communicated throughout the bank:

"We have a policy on internal control where we design several things in the first and second lines of defence. I would say that we are pretty well off with the second line. The awareness and the structure of the first line of defence seems to have been developed much further lately." (Icelandic manager)

"We are working with the second line of defence in many aspects, and we are trying to avoid overlapping. So this is obviously something that we’re looking at as an alignment of those control units, but we also have the overseeing responsibility with respect to following up on compliance being effective and risk management being effective.” (Icelandic manager)

Regarding cultural controls in the Icelandic banks, it is the responsibility of these professionals to design new values into the cultural control systems, such as hiring and training procedures.

"New employees are told the new values, and these are taught in a course for new employees. And managers stress the importance of applying them to our meetings.” (Icelandic manager)

In the three Icelandic banks, the CEO was described in terms such as “change agent” and “captain”. As such, the CEO was not described as being responsible for the detailed interpretation, design and execution of management controls, but rather as someone who set the direction, provided the vision and influenced the necessary change processes.
The difference in impact of the 2008 crisis on management controls between the Icelandic and Danish banks is similar to the difference between a minor and major earthquake. The crisis in Iceland was a major crisis threatening the country’s economic survival and leading to a crisis of public trust in banks.

The changes in management controls focused on formalising administrative control of compliance with regulation and standards, opening different control elements to external scrutiny, changing the scope and direction of reward and compensation schemes, and reinventing and redefining cultural controls.

The crisis in the Danish banks studied was more a tremor than a major life-threatening earthquake. It did not threaten the economic survival of the country, the three banks in this study did not need to be bailed out by the state, and there was no general evaporation of public trust in banks as such. There was, however, a need for strengthening administrative controls regarding compliance and implementing new local regulatory requirements as well as supranational requirements for increased transparency and risk control. However, the processes and procedures for compliance, risk management, internal auditing and control were already well established in the banks in question, and thus no major changes were required.

Cultural controls were radically redefined in the Icelandic banks with the intention of creating new values, mission and vision (see Case Study 1). The efforts to redefine the values of the Icelandic banks were led by the CEOs with the overall aim of defining radically different sets of values and value-based controls for the banks, in order to enable the bank – post-crisis – to distance itself from the values and practices of the pre-crisis bank.

Administrative controls, and rewards and compensation changed mostly because of requirements imposed by external agencies, such as the cap on management bonuses, or by management initiatives, including increasing formalisation of, for example, risk management. This coercive external agency control also required changes in compliance reporting to these agencies, as Case Study 2 shows.

Organisational structure was used to frame the restructuring of the “new” organisation after the crash, and policies and procedures were further formalised to ensure consistent practices and compliance with external agency requirements. More resources were allocated to risk departments, which increased in size.

Rewards and compensation schemes were radically redefined to comply with external requirements, but also to redefine the focus of employees and to cement the new values of the banks. This included changing the scope, intensity and direction of the banks’ bonus schemes as well as opening this internal control system to external agency scrutiny.

Planning processes remained relatively unaltered after the crisis, while performance measures were reconfigured to reflect a stronger emphasis on customers, risk management and compliance as shown in Case Study 3.

In contrast, the Danish banks experienced no direct threat to their continuing existence. The responses to the crisis were thus more along the lines of weathering the storm and complying with the regulatory requirements. Policies and procedures were updated to incorporate new compliance requirements, and new strategies were introduced to ensure continuing business. No significant changes were initiated in cultural controls that can be traced directly to the crisis in 2008. The Danish banks however have focused on the role of the compliance function in a post-crisis banking environment as shown in Case Study 4.

The role of top management – especially the CEO – is critical when it comes to managing change of the magnitude described in the Icelandic banks. But the role of the management control professionals in interpreting and designing the changed controls is also imperative. These professionals had to navigate the internal upheaval brought on by the financial crisis, respond to the increase in external scrutiny and compliance requirements, as well as develop new management control designs.

Navigating a financial crisis is difficult at the best of times. Box 1 illustrates some of the lessons learned from the experiences of the Icelandic and Danish banks.
BOX 1: Lessons learned and guidance to bank managers when responding to a severe financial crisis.

- Well-designed and implemented management controls are critical when banks respond to a financial crisis.
- There will be a difference in change in individual management controls, depending on the magnitude of the financial crisis faced by the bank, as well as the initial design of the management control systems.
- In a crisis of public trust recruiting a new CEO to act as a change agent should be considered.
- Establish new organisational values from the bottom up signalling a clean break with past values.
- Formalise new values and increase emphasis on compliance through policies and procedures.
- Change reward and compensation schemes to direct employee focus towards new goals.
- Reconfigure performance measurement to reflect new emphasis.
- Set clear policies and procedures for repetitive tasks combined with transparent governance processes to free up management attention to deal with crisis situations.
- Strengthen the finance function, risk management, the compliance function and internal auditing to successfully develop management controls. This includes adding management accounting capabilities.
- Coordinate between these functions in designing and implementing changes in management controls.
- Observe that despite increased regulatory compliance requirements, focus on business requirements has to be maintained.
- Recognise the risk of losing focus on core elements of management control such as action planning and budgeting.

CASE STUDY 1: Using cultural controls to regain public trust

In the months following the 2008 financial crisis in Iceland the main focus of the bank managers was to put out fires and deal with the consequences of the de facto bankruptcy of the banks. However, there were wider impacts that had to be addressed. Apart from financial losses, Icelandic bank customers lost trust in the financial industry. The values of the banks before the crisis were widely seen as negative and part of what had caused the crisis. The three restructured banks now faced the challenging task of regaining that trust. This included redefining organisational values, defining new social norms and finding new symbols to represent the new organisation. The new CEO, the new CFO and the management team in one of the banks elected to rebuild the values of the bank from the bottom up by involving all employees. In the beginning of 2009 a series of meetings were set up with all employees to define the new values of the bank. Although this was at the time criticised, it proved to be a huge success resulting in new values, employee commitment and new communications that could be targeted to customers. These meetings have been held every year since, and are now a part of the strategy process of the bank.

CASE STUDY 2: Redefining compliance reporting

Since the financial crisis in 2008 the banking infrastructure of Iceland has changed significantly including a considerably larger reporting task for the banks. Today, banks have to submit reports, for example, about capital requirements, risk profiles, regulatory compliance performance and control system performance to the Financial Supervisory Authority and the Central Bank of Iceland. There are also ad hoc inquiries from the Parliament and international bodies that have to be responded to. Banks also need to comply with new local and international regulations, which has led to changes and updates in information systems. One Icelandic bank currently has 8 employees (out of 32) in the risk department working full time only on reporting to external parties. This creates the need for “hybrid accountants” according to the Risk manager. There is a need for employees with an understanding of risk, management reporting, financial reporting and information technology that can access, format and report risk and compliance information.
CASE STUDY 3: Redesigning performance measurement systems

Before the crisis in 2008 the performance measurement systems of the Icelandic banks – according to some managers – had too much focus on expanding sales and assets and too little focus on risk and compliance. Combined with lack of experience by many new managers – in hindsight – this lead to bad decisions. After the crisis the redesign of performance measurement systems got high priority in all three banks. In one bank performance measurement was linked more closely to the strategic focus of the bank by selecting a number of key performance indicators that were used to communicate performance externally. These included risk and compliance indicators. Internally the emphasis on financial performance measures in evaluating departmental and individual performance was reduced. Measures of compliance, social responsibility, strategic success and innovation were added in the reward and compensation system. If targets related to these new measures were not fulfilled, the manager in question would not get his or her full bonus. The finance department spearheaded these changes by selecting performance measures, designing information systems and reporting requirements in cooperation with the human resource department.

CASE STUDY 4: The future of the compliance function

The Danish banks all had strong compliance functions before and after the financial crisis in 2008. It seems though that the future role and nature of the compliance function and its links to accounting is under revision. According to Danish managers approximately 70% of the recommendations of the compliance function are related to improvement of existing documentation. Also, the compliance function is often not involved when designing new procedures. Business managers seem to perceive them as being too focused on formal procedures and legal issues rather than on business issues. This leads to delays and performance of tasks that are seen as irrelevant by business managers. The question is whether the compliance function is in need of a new role. Rather than being a surveillance function that risks being bypassed in business development activities it should move closer to the business. This would require employees with management and management accounting backgrounds who understand business processes, as well as risk and compliance.
REFERENCES AND FURTHER READING


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