

— TONE — at the — TOP —

Providing senior management, boards of directors, and audit committees with concise information on governance-related topics.

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Organizational Behavior’s Impact on Success

Does your board have visibility into the company’s organizational behavior? When companies understand organizational behavior and its impact, they are better able to motivate, engage, and inspire their people.

Failure to consider organizational behavior can prevent businesses from achieving their desired goals and can impact not only the organizations, but also their people and customers.

Boeing’s well-publicized problems with the 737 MAX aircraft are one example. Leadership’s strong focus on short-term profitability and speed to market reportedly discouraged engineers from expressing their safety concerns and led to a number of aviation disasters, according to “[Learning from Ethical Leadership Failures at Boeing](#)” posted by the Harvard Law School Program on Negotiation.

Because of this topic’s importance for companies, The Institute of Internal Auditors has released baseline requirements for its members in the new [Organizational Behavior Topical Requirement](#).

Organizational Behavior vs. Culture

The Topical Requirement defines *organizational behavior* as “the observable actions, decisions, and interpersonal dynamics of individuals and groups within an organization. This behavior influences performance and the achievement of strategic objectives. Simply put, organizational behavior is ‘the way we do things.’” As the Topical Requirement User Guide notes, organizational behavior is considered a subset of culture.

The User Guide defines *culture* as “the choices employees make in doing their jobs and how they work with others, together with

what is driving those organizational behaviors. Drivers include formal mechanisms, such as incentives and goals, and informal mechanisms such as collective values and beliefs.”

The Organizational Behavior Topical Requirement is intended to reframe the focus on auditing “culture” to auditing “organizational behavior misaligned with strategic objectives.” The idea is to provide a clearer, more structured, precise, and auditable foundation. The Topical Requirement is meant to be used not only in standalone culture reviews but also across audit engagements where behavior affects outcomes.



Governance Considerations

Board members should be aware of the Organizational Behavior Topical Requirement not only because of the direction it offers to internal auditors, but also because it addresses how internal auditors should assess several key aspects of governance of organizational behavior. (The Topical Requirement contains similar sections on risk management and control processes.)

Roles and responsibilities are structured to avoid misaligned organizational behavior. In making this assessment, the Topical Requirement User Guide recommends that internal auditors consider evidence such as the existence of:

- A governance committee that:
 - » Establishes an organizational behavior board or subcommittee focused on maintaining links between organizational behavior and strategy.
 - » Regularly reviews behavioral risk metrics that identify necessary action to ensure behavior aligns with strategic objectives, related values, and organizational purpose.
 - » Includes behavioral objectives in executive performance and compensation.
- Board reporting frameworks that use structured dashboards to provide insights into behavioral risk indicators and deliver culture-related metrics for strategic performance reporting at the board level.
- Surveys and other stakeholder feedback that offer insights on behavioral alignment with strategic directions.

Individual and group accountability for behavioral expectations. Evidence in this area can include:

- Board efforts to clearly define accountability for organizational behavior across the organization.
- Determining whether business units and operational management are embedding behavioral expectations so that decisions, communications, and team dynamics reflect the organization's stated values.
- Confirming that risk, compliance, human resources, and related oversight functions design and maintain the organization's behavioral framework.

Regular monitoring, evaluation, and challenging of alignment between behavioral patterns and strategic objectives. This may mean:

- Using a dashboard to provide key datapoints from sources such as employee satisfaction and integrity survey results, attrition and absenteeism rates, speak-up channel content, incident data, and performance and innovation metrics.
- Considering the board's knowledge of how current aspects of organizational behavior could be addressed to enhance organizational effectiveness and performance.
- Reviewing board requirements of a continuous learning system that identifies improvement opportunities and actively and measurably addresses results.

Behavior risk protocols that are periodically reviewed and communicated and integrated into business operations and decision-making processes. In this area, internal auditors should consider whether:

- Behavioral expectations are formally spelled out in relevant policies (such as a code of conduct and policies on ethics, human resources, incentives, and the delegation of authority).
- Risk management functions map behavioral expectations to key operational processes – such as hiring, performance reviews, onboarding, and client management – so that they are reflected in daily decisions.
- The board gains assurance that the policies are accessible and clearly communicated through multiple channels.
- All behavioral policies and procedures undergo scheduled reviews and are updated based on incidents, survey findings, or regulatory changes.
- The board receives regular updates on policy coverage, clarity, and effectiveness.

About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 265,000 global members and has awarded more than 200,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit theiia.org.

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Putting the Topical Requirement to Work

The User Guide provides examples of how the Organizational Behavior Topical Requirement might be used in practice, including:

- Performing a stand-alone review of an organization's overarching framework to consider its design and operational effectiveness in managing behavioral risk. Engagement scope could cover the governance structures, risk management activities, and behavioral controls that reinforce alignment across the organization.
- Assessing how the organization's incentive frameworks affect behavior and how well they align with the organization's purpose, values, and regulatory expectations. This approach may be called for if there are concerns about misconduct risk and emerging evidence of pressure-based behaviors in a company's business units.
- Integrating behavioral risk considerations into a traditional engagement to assess cyber risk management. Given that many cyber failures are due not only to technical issues, but also to human behavior, the auditors would include reviews of behavior throughout the engagement.

Additionally, a chart in the User Guide maps the Topical Requirement's governance, risk management, and control process requirements to COSO's *Internal Control-Integrated Framework* and *Enterprise Risk Management Framework*. Internal auditors can use the chart to reconcile their COSO-based testing to the Organizational Behavior requirements.

Valuable Insights

Internal auditors must apply Topical Requirements in conformance with The IIA's Global Internal Audit Standards when providing assurance services on the topic. Organizational behavior engagements can be tailored to each company's specific needs, and they can enable internal auditors to provide boards with valuable insights in this critical area.

Topical Requirements Conformance

Intended for situations when the topic is one of the following:

1. The subject of an engagement in the internal audit plan.
2. A topic that has been identified for further consideration during an engagement.
3. A theme of a requested engagement that was not on the original internal audit plan.

Bridging Gaps in Organizational Behavior

The largest gap in organizational behavior is between individuals and senior management, according to the *Forbes* article, “What Is Organizational Behavior?” The article identifies five factors that can narrow the gap:

- A positive company culture in which all employees share common values and apply them at work.
- Innovation in organizational structure that promotes autonomy and innovation.
- Change management that allows for new ideas but makes it possible to retain core goals and values.
- Work processes that allow people and teams to accomplish their work in ways that align with the company’s short- and long-term goals.
- Strategic alignment, in which the company’s mission and direction set the tone for organizational activities and decisions support company goals.

