

RISK CULTURE

Mira Consulting

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Risk Management

- ▶ Frameworks, processes and standards for Risk Management are all essential-but not sufficient
- ▶ For organisations to manage their risks and meet their strategic objectives the behavioural element has to change- the way we behave affects how we manage risk
- ▶ This short discussion will summarise the tools needed to drive culture change within your organisation

Elements of good Risk Culture

- ▶ Successful risk culture includes:-
 - ▶ Distinct and consistent tone from the top
 - ▶ Commitment to ethical principles
 - ▶ Clear accountability and ownership for risks
 - ▶ Transparent risk information communicated without fear or blame
 - ▶ Processes and activities within an organisation must be clearly understood
 - ▶ Appropriate risk behaviours- encouraged and understood
 - ▶ Inappropriate behaviours- challenged and sanctioned
 - ▶ Risk management skills and values valued and correctly resourced
 - ▶ Status quo challenged
 - ▶ Employee engagement and people strategy

What is Risk Culture

- ▶ Risk culture describes the values, beliefs, knowledge and understanding about risk shared by the employees within an organisation
 - ▶ Focuses on the collective ability to manage risk
- ▶ The IRM proposes a simple A-B-C approach to risk culture:-
 - ▶ Risk attitude (position adopted by employees towards risk which is influenced by their perception and predisposition)
 - ▶ Risk behaviour (risk-related actions, decision-making, processes and communication) and
 - ▶ Risk culture (values, beliefs and knowledge about risk)
- ▶ “Culture is an environment, a pert-dish in which certain behaviours and characteristics are allowed to flourish or not” - John Harvie, Director, Protiviti

Importance of Risk Culture

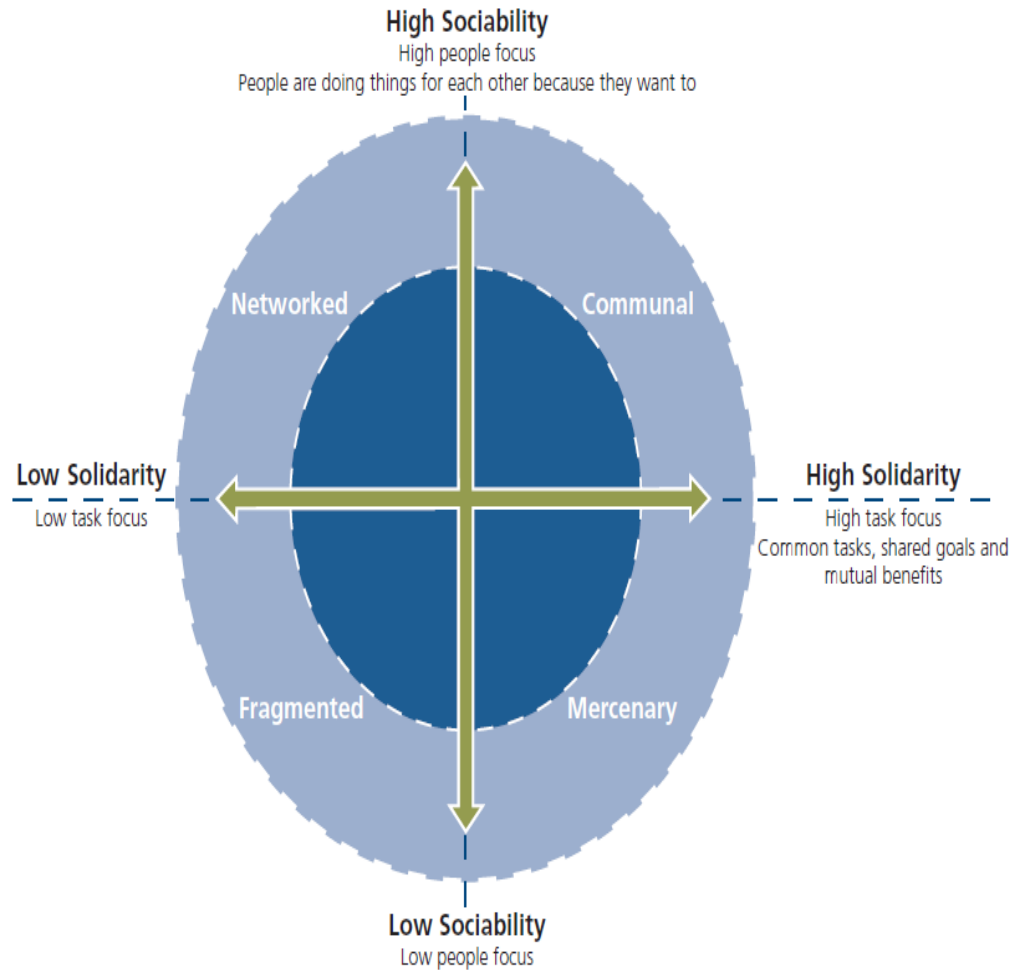
- ▶ All organisations need to take risks in order to achieve their objectives, the risk culture within that organisation can make it either significantly better or worse at managing these risks
- ▶ Problems with risk culture are frequently found at the root of organisational scandals and collapses. Inappropriate risk culture for a particular organisation can:-
 - ▶ Hamper the achievement of strategic, tactical or operational goals
 - ▶ Allow for activities that are at odds with policies or procedures
 - ▶ Could lead to reputational and financial damage
 - ▶ Lead to uncontrolled risk taking- risk frameworks and policies that stifle risk-taking or innovation
- ▶ We need to balance risk and reward successfully in decision making

Risk Culture Framework



- ▶ This diagram represents an integrated set of relationships which influence risk culture
- ▶ The individual level:-
 - ▶ Personal perception to risk
 - ▶ Personal ethics
- ▶ The organisational level:-
 - ▶ An individuals values, beliefs and attitudes towards risk contribute to and are affected by the overall culture of the organisation
 - ▶ Organisational culture has two key elements- sociability and solidarity, called the Double S model

Risk Culture Framework



- ▶ This Double S model offers a cultural view of the organisation and is a useful diagnostic tool
- ▶ Strong sociability ensures cohesion and common purpose in working across organisational boundaries
- ▶ Strong solidarity is helpful in ensuring that risk mitigation plans are acted upon
- ▶ Organisations should seek to strengthen both their sociability and solidarity ratings in order to implement risk management more effectively

Changing the Risk Culture

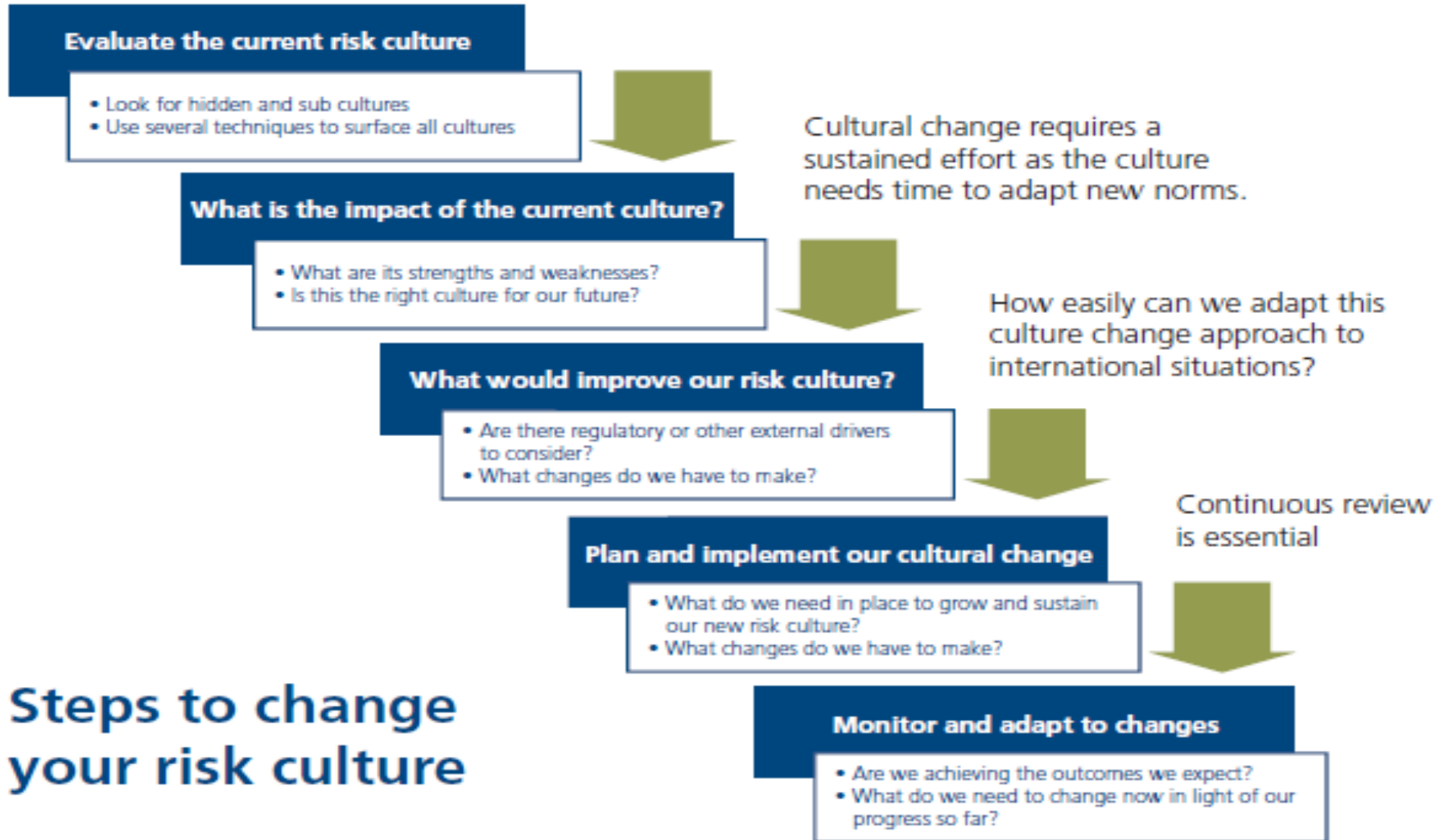
- ▶ It is possible for an organisation to drive change in its risk culture. This requires:-
 - ▶ An understanding of the current culture and the desired 'target' culture
 - ▶ Recognition that this is a major change programme and requires discipline to see it through
- ▶ The culture change should be treated as a change management project in its own right with appropriate allocation of board time and resources
- ▶ Successful change requires awareness that the board itself, and the Executive management who are an integral part of the existing risk culture
- ▶ Sustained change in the risk culture needs to start at the top

Risk Culture Model



- ▶ The risk culture model is used to identify the gaps and areas of strength and weaknesses -a simple questionnaire/ structured interview
- ▶ Ask the following questions:-
 - ▶ Tone at the top
 - ▶ risk leadership - clarity of direction
 - ▶ how the organisation responds to bad news
 - ▶ Governance
 - ▶ the clarity of accountability for managing risk
 - ▶ the transparency and timeliness of risk information
 - ▶ Competency
 - ▶ the status, resources and empowerment of the risk function
 - ▶ risk skills - embedding of risk management skills across the organisation
 - ▶ Decision Making
 - ▶ Well informed risk-taking
 - ▶ KPI's linked to risk management

Next Steps



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