Risk culture
Resources for Practitioners

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The Institute of Risk Management (IRM) is the world's leading enterprise-wide risk management education Institute. We are independent, well-respected advocates of the risk profession, owned by our members who are practising risk professionals. IRM passionately believes in the importance of risk management and that investment in education and continuing professional development leads to more effective risk management.

We provide qualifications, short courses and events at a range of levels from introductory to expert. IRM supports its members and the wider risk community by providing the skills and tools needed to put theory into practice in order to deal with the demands of a constantly changing, sophisticated and challenging business environment.

We operate internationally with members and students in over 100 countries, drawn from all risk-related disciplines and a wide range of industries in the private, third and public sectors.

A not-for profit organisation, IRM reinvests any surplus from its activities in the development of international qualifications, short courses and events.

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Foreword

For over 25 years the Institute of Risk Management has provided leadership and guidance to the emerging risk management profession with a unique combination of academic excellence and practical relevance. The Institute's profile continues to grow internationally with heightened interest in the management of risk across government, public and business domains.

Our work on risk culture is our latest contribution to thought leadership in the field. The continuing parade of organisational catastrophes (and indeed some notable successes) demonstrates that frameworks, processes and standards for risk management, although essential, are not sufficient to ensure that organisations reliably manage their risks and meet their strategic objectives. What is missing is the behavioural element: why do individuals, groups and organisations behave the way they do, and how does this affect all aspects of the management of risk?

Problems with risk culture are often blamed for organisational difficulties but, until now, there was very little practical advice around on what to do about it. This paper seeks to give guidance in this area, drawing upon the wealth of practical experience and expert knowledge across the Institute. It aims to provide advice to organisations wanting greater understanding of their own risk cultures and to give them some practical tools that they can then use to drive change. It should be of interest to board members, executive and non-executive, risk professionals, HR professionals, regulators and academics.

This document - Risk Culture: Resources for Practitioners – is aimed at those working as risk professionals and brings together work on the concepts and models that we have found to be useful. It has been published concurrently with a short document summarising our approach to risk culture for those working at board level. Risk culture remains a developing area and we do not consider that we have written the last word on the subject – we expect to see more models and tools and, in particular, sector and issue-specific work emerging in the future.

I am particularly grateful to Alex Hindson, my immediate predecessor as IRM chairman, who has been the driving force behind this work and who has brought together the wide ranging thoughts of a diverse project group plus a global consultation into a coherent paper.

I would also like to thank our sponsor Protiviti, for supporting the design and print of this document, as well as contributing to the content. IRM is a not-for-profit organisation and such support is invaluable in helping us maximise our investment in the development and delivery of world class risk management education and professional development. Our thanks also go to those other organisations and associations from around the world who are endorsing this document and commending it to their members.

Richard Anderson
Chairman
The Institute of Risk Management

These days it feels as though we read about another failing in corporate standards almost every day. Maybe it has always been the case but it appears that when the dust settles and the enquiry is over the causes of the failure boil down more often than ever to culture. The term risk culture is bandied about by regulators, politicians and the media. Why does it appear so hard to get risk culture right and what does it look like when we do? Protiviti is delighted to support this new piece of thought leadership from the IRM and looks forward to engaging in the resulting debate with its members and with the wider business community to bring solutions to this topic to the front of the business agenda.

Peter Richardson
Managing Director
Protiviti

Problems with risk culture are often blamed for organisational difficulties but, until now, there was very little practical advice around on what to do about it.

Our supporters

The IRM's paper focuses attention on an important governance issue that is relevant across all sectors. By helping the understanding of how culture impacts on risk management, the paper will help risk managers, governance practitioners and those charged with governance to be more aware of the contribution of effective risk management to good governance. The questions for the board will support organisations seeking to improve their risk culture and we look forward to exploring these issues further with our members.

Ian Carruthers
Director Policy & Technical
Chartered Institute of Public Finance and Accountancy

The Institute of Risk Management South Africa (IRMSA) is looking forward to being part of this initiative and to assist members, within South Africa and Africa, better understand risk culture and the constant debate within their organisations. IRMSA supports this initiative by the IRM and we look forward to continuing the discussion amongst our members and seeing the feedback from our global peers.

Gillian le Cordeur
Chief Operations Officer
The Institute of Risk Management South Africa (IRMSA)

The Business Continuity Institute (BCI) welcomes this exceedingly thorough contribution to the subject of risk culture from IRM and its partners. The BCI is confident that this will become the definitive guide on the subject for years to come. Culture has a significant impact on how organisations prepare for and successfully deal with unexpected crises and their consequences, whether it is in supporting communication up and down the organisation or ensuring that employees are motivated to work through a crisis. It is therefore a key determinant of an effective business continuity capability and organisational resilience. This paper provides some excellent diagnostic tools for practitioners to better understand the risk culture in which they are implementing a BCM programme, and how they can take the initiative to advocate changes to attitudes and behaviours that can deliver more effective business continuity.

Lee Glendon
Head of Research & Advocacy
Business Continuity Institute

IRM's guidance on risk culture offers a crisp and thought provoking discussion of the importance and difficulty of determining the desired culture and making it stick. We recommend it as a valuable resource for anyone in any organization who is striving to understand and improve risk culture as a critical step in achieving principled performance.

Carole Stern Switzer, Esq
Co-Founder and President
Open Compliance & Ethics Group

Alarm, now in its 21st year of being the UK voice for public service risk management is pleased to support this latest publication from the Institute of Risk Management. Culture is a complex structure with many elements feeding it from the objectives of an organisation, the tone at the top through to the way we always do things here, as a few examples. All organisations will have a culture - the challenge is to ensure that this culture supports the management of risk rather than working against it. This publication gives real practical guidance and tools that managers of risk can use to drive change towards a positive risk culture.

Mandy Knowlton-Rayner
Chairman
Alarm

While much progress has been made in recent years in developing risk management frameworks and standards, recent events have shown that there needs to be more focus on the behavioural aspects of governance and risk management, including the creation of a robust risk culture. CIMA therefore welcomes this new report as a valuable contribution to helping organisations to succeed with plenty of practical tools to support putting the concepts into practice.

Gillian Lees
Head of Corporate Governance
Chartered Institute of Management Accountants (CIMA)

The Federation of European Risk Management Associations (FERMA) is pleased to endorse this authoritative work. Risk Culture is an under-developed area of risk management theory and practice and little consensus has yet emerged amongst risk professionals on the best way to help the board approach the concept and analysis of risk culture. This work provides a practical framework for addressing the challenges of culture risk and fills a material gap in an otherwise well-researched and documented professional discipline. Look at models and standards in the risk manager's library and you will find many references to the importance culture plays in managing risk but very little by way of in-depth analysis or suggested practices. Recognised as strategically important, this subject has been relatively neglected. This paper helps to fill this gap.

Jorge Luzzi   **Julia Graham**
President   Board Member
Federation of European Risk Management Associations

These two publications on risk culture break new ground on what is probably both the most important, but least understood, aspect of risk management, and indeed of corporate governance. Regulation, rules and procedures are of little use if a corporate culture does not support them and people make can make poor systems work and good systems fail. These publications help us understand what makes people tick and will help organisations to assess their own culture. This is a much needed resource; we congratulate IRM on writing it.

Paul Moxey
Head of Corporate Governance and Risk Management
ACCA

Great governance is founded on the governing body's ability to create an organisational culture that balances the need for generating value with the associated risks that inherently go along with the process. This excellent document provides a valuable set of tools for all governing bodies to deploy their responsibilities effectively and determine future organisational success. EIGA is delighted to endorse this work and welcomes the drive to create organisations that operate effective and balanced risk cultures.

Professor Dean Fathers
Chairman
European Institute of Governance Awards

Companies are increasingly having to focus on embedding the right risk culture, and this thorough and thought provoking paper will provide the tools many organisations are looking for to do that, with lots of practical lessons to complement the sound theory on which it is build. It's a must-read for all CROs.

Martin Shaw
CEO
Association of Financial Mutuals

The IRM is right to focus on risk culture. Treasurers know that risk management goes beyond risk policies and rules – it is also driven by values, beliefs and attitudes of the individuals and their organisations. IRM members, like ACT members, realise that professional standards, an ethical code and good training will contribute to a good risk culture. The relationships analysed in the IRM Risk Culture Framework show that the right individual can, and does, make a real difference.

Colin Tyler
Chief Executive
Association of Corporate Treasurers

As an advocate for corporate governance in the Middle East and North Africa region, Hawkamah Institute for Corporate Governance congratulates the Institute for Risk Management for this work as this initiative rightly focuses on business culture and behavior as one of the elements for better risk management and corporate governance. This work, along with IRM's supporting publication providing guidance for the board on risk culture, is a welcome contribution to corporate governance discourse in our region.

Nick Nadal
Hawkamah Institute for Corporate Governance

Our work on board effectiveness has led to the inescapable conclusion that directors, and management, need to develop a better understanding of key aspects of risk methodology. In addressing the issue of culture, this publication provides excellent insights into how risk management systems can be made more effective. We hope the guidance will help boards become more successful in the challenging task of delivering their strategy and building value sustainably.
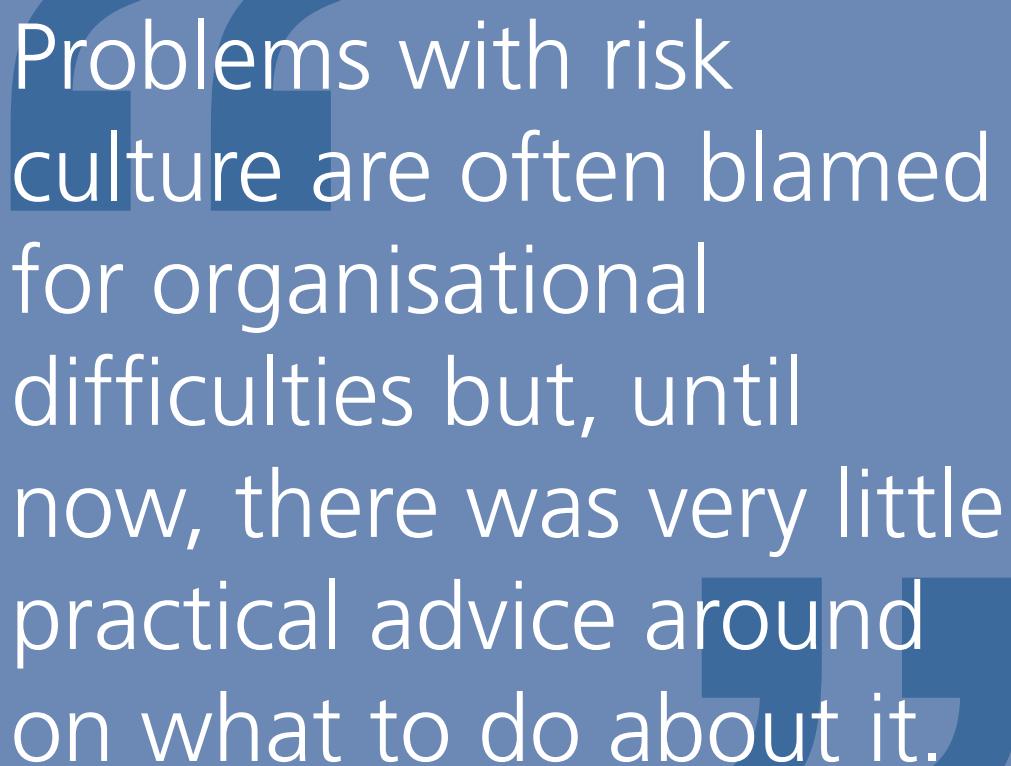
Seamus Gillen
Director of Policy
ICSA

Our project team

"Problems with risk culture are often blamed for organisational difficulties but, until now, there was very little practical advice around on what to do about it."

Richard Anderson
Chairman
The Institute of Risk Management

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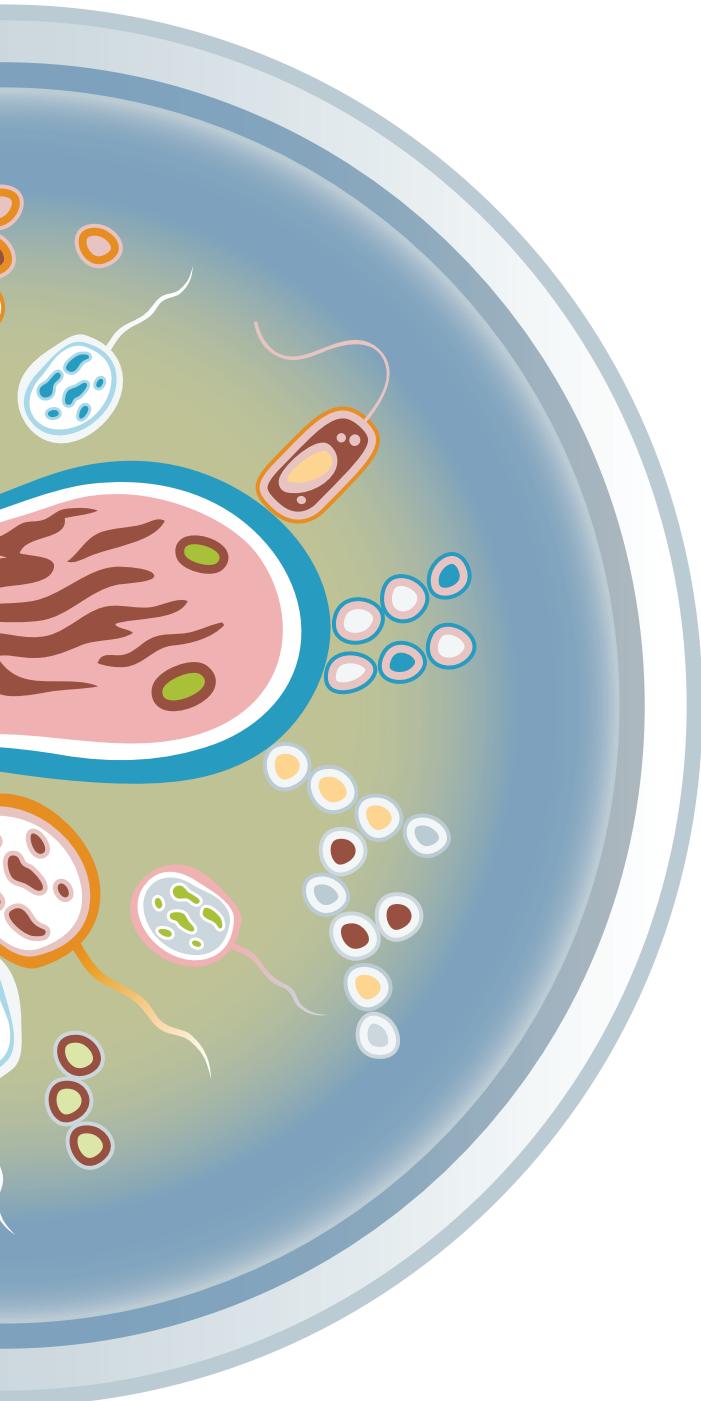
Chapter 1: About this document and how to use it
Alex Hindson

The idea for this document was conceived by the IRM Thought Leadership group in late 2011 and a project was initiated in January 2012. The objective was to provide a practical guide and diagnostic tools and techniques for addressing the cultural issues involved in implementing enterprise risk management.

The project team recognised early on that this was a rapidly developing and immature topic and that there was no general consensus on how it should be tackled. This suggested an approach whereby a series of essays exploring various aspects of risk culture would be beneficial in capturing the different facets of such a complex subject. The IRM recognised that given the scale of the topic and challenges in embracing every aspect of a complex subject, due humility should be shown in terms of what contribution such a paper could make to moving this subject forward.

The document is essentially a collection of essays by different authors on various aspects of risk culture. We have structured it into a logical sequence of chapters using the IRM Risk Culture Framework (see page 14) but there are differences in style and expression between the chapters. The document is aimed at risk professionals and operational management teams (as risk culture is not the sole domain of the risk professional).

We have found some useful academic work on the subject and have drawn upon this for the document. However this document itself is intended to be a practical guide for risk practitioners, by risk practitioners rather than a rigorous and comprehensive academic approach. We could not research or review every detailed aspect or resolve every difference of view but have focused instead on gathering together a collection of resources that we hope practitioners will find useful.

We have also distilled from our broader work some guidance for the board – Risk Culture: Under the Microscope, Guidance for Boards - that contains the key ideas focused for board level discussion. This is also available from the IRM website.

An important objective of the project was for the IRM to undertake a series of surveys and assemble case studies to bring new insights to the subject and encourage the direct involvement of as many members as possible. These have been invaluable in confirming hypotheses put forward by models as well as confirming the current status of industry practice. They can be found in the appendices to this document.

Within the document we have referred to some proprietary tools that help us understand different aspects of risk culture. Clearly these are not the only tools available but we are providing the information on the basis that it may be useful. The owners of these tools have also generously agreed to share information about them in this document. Inclusion of the tools does not imply endorsement of the tools by IRM.
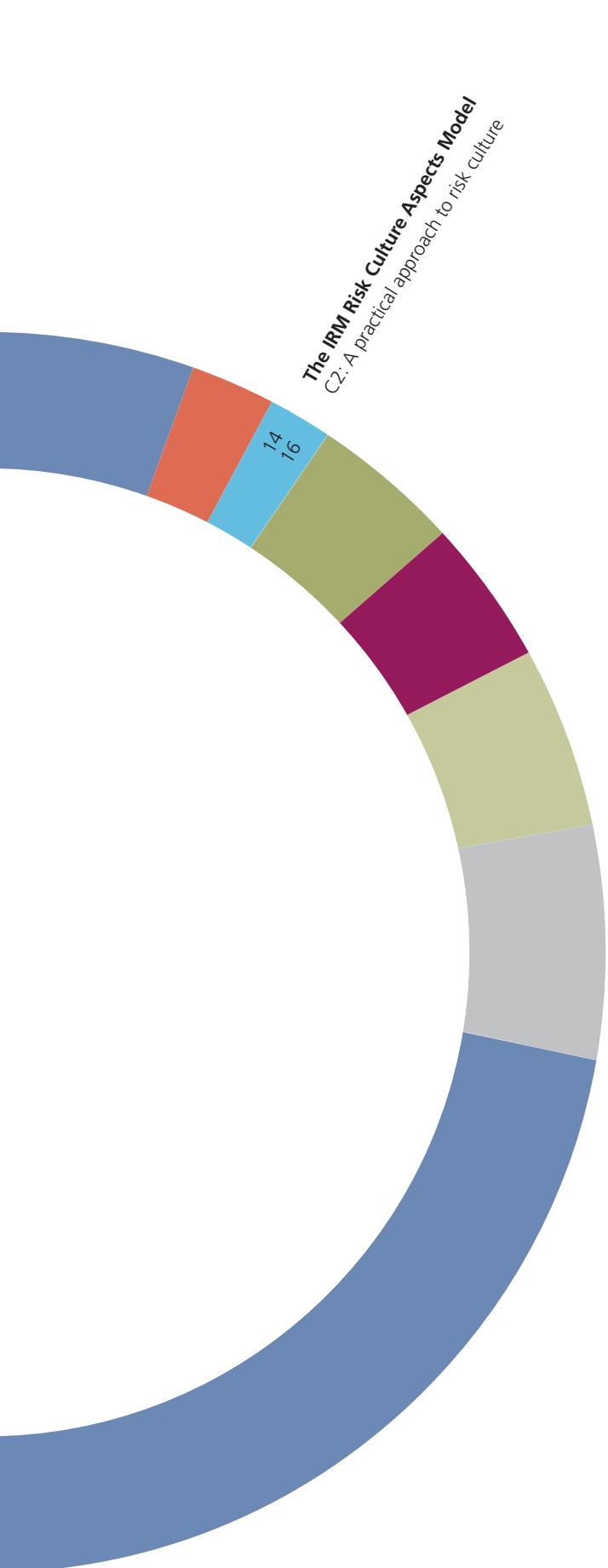
We released draft versions of our documents for a consultation period during July/August 2012. We were gratified to receive over 80 responses from around the world. The majority of the respondents were supportive of the approach being taken in the documents and found them to be helpful. Numerous comments and suggestions for improvement were made and we have endeavoured to incorporate them as far as possible although we know that we will never be able to please everyone. A list of those responding can be found at Appendix 5.

As a next step, we would like to build on the work undertaken for this project by encouraging specialists from particular sectors to consider the particular cultural issues in their field (e.g. the public sector, the health sector, the financial services sector). We would also like to add more case studies, particularly those demonstrating positive aspects of risk culture, and to expand the work into other areas (e.g. outsourcing and third party relationships) and would welcome further contributions along these lines.

This document is intended to be a practical guide for risk practitioners, by risk practitioners

IRM risk culture aspects model

The **IRM Risk Culture Aspects Model**
C2: A practical approach to risk culture

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Chapter 2: A practical approach to risk culture
Alex Hindson

Background

There has been great progress over the past decade in developing effective tools and techniques for managing risk within organisations. There is a general acceptance that boards need to be mindful of the risks associated with their strategic objectives (including the risks that those objectives may themselves be deficient). There is an appreciation that the risks facing an organisation should be addressed with a holistic, integrated or enterprise risk management (ERM) approach and various standards, codes, rule-books and approaches have been developed to help organisations address these issues in a systematic and comprehensive way.

And yet, as seen in the business press every day, embedding risk management into an organisation to the extent that it reliably makes a difference is still a difficult task. Those seeking to do so inevitably come up against the ultimate challenge: people. Human beings, acting as individuals and interacting in groups, are the 'wetware' in the system - not necessarily behaving in the logical, predictable and controllable way that we would like them to. Every individual brings to the job a unique perception of risk. Every group and organisation has its own approach to risk - its risk culture - that may or may not be helpful in successful management of risk. The risk culture will influence the mechanisms and techniques that the organisation employs to manage risk but is also in turn influenced by them.

In the UK, the Financial Reporting Council's recent report on Developments in Corporate Governance recognises this situation, saying that "The issues with which companies were grappling included understanding their exposure to risk and how this might change, identifying the information and assurance that the board needed to carry out its role, embedding the right risk culture throughout the company and the increased velocity of risk, which had highlighted the importance of effective crisis management." (Financial Reporting Council, 2011).

Internationally, the ISO31000 risk management standard refers several times to the need for managing risk to be integrated into the organisation's culture, and also for that culture to be well understood as an element of the context for risk management. (ISO, 2009). The COSO ERM Framework also recognises the tone of the organisation and how risk is viewed and addressed by its people as part of establishing the 'Internal Environment' - one of the essential components of ERM. (COSO, 2004). Rating agencies are also taking a close interest in risk culture with Standard and Poor's stating that "a company's risk-management culture is the foundation for its ERM processes" and including ERM culture as a key component in their review methodology. (Standard and Poor's, 2009).

Essentially our work on risk culture is trying to answer three interlinked questions:

How do we improve risk management within the existing culture of our organisation?

What sort of risk culture should our organisation be aspiring to in order to enable it to be more successful?

How do we drive change to the existing organisational culture in order to make risk management more relevant and effective? What does this change involve?

Understanding the risk culture in an organisation

Although there is no single method of 'measuring' risk culture, there are a number of diagnostic tools available that can be used to indicate and then track the risk culture in an organisation. The mix of tools and the order of their deployment will depend on the context of the organisation and its risk management maturity. We set out the details of the models, tools and approaches that we have found useful in subsequent chapters of this document.

IRM has articulated a Risk Culture Framework around which to analyse, plan and act to influence risk culture within any organisation. We look at the effects of predisposition towards risk and personal ethics in shaping attitudes and behaviours and we look at the role of organisational cultures. Figure 2.1 on the right attempts to distil what is a complex and interrelated set of relationships into a simple and high level approach to looking at the various influences on risk culture. Risk culture is the sum of multiple interactions. At the lowest level, each individual's personal predisposition to risk contributes to their ethical stance, how they behave and make decisions. Group behaviours and the underlying organisational culture also influence risk culture.

This 'onion-like' diagram is designed to provide a high-level approach to considering how risk culture is influenced. IRM recognised early on in this work that risk culture was a complex and multi-faceted topic. Providing a simple approach to thinking about the elements that influence an organisation's culture was felt to be important. The simple framework was deliberately chosen to focus on what influences risk culture, recognising that what the framework lost in detail was more than made up for in terms of clarity and vision.

The framework should be read from the smallest circle, recognising the importance of the individual's 'predisposition to risk' as well as 'personal ethics' in shaping people's attitudes. The ABC Model (see Chapter 3, Fig 3,1) then describes the link between these attitudes driving behaviours and behaviours in turn shaping organisational culture. The framework recognises that risk culture in turn is a product of the organisation's overall culture.

Fig 2.1 IRM Risk Culture Framework

The individual level

There may be concern that the culture of the organisation is attracting and encouraging individuals whose inherent ethical stance or risk-taking predisposition may be at odds with the board's commitment to high standards of integrity in dealing with all stakeholders. Taxi drivers and airline pilots are routinely given personality tests to determine how effectively they can exhibit self-control under stress – we should be ready to look at other key staff, managers and board members in the same way.

Personal predisposition to risk

Every individual comes to an organisation with their own personal perception of risk. People vary in all sorts of ways and this includes their predisposition towards risk. Personality research identifies two specific traits that contribute to this:

• The extent to which people are either spontaneous and challenge convention or organised, systematic and compliant;

• The extent to which people may be cautious, pessimistic and anxious, or optimistic, resilient and fearless.

It is possible to measure predisposition to risk by use of personality assessment tools. Their basic rationale is that, with regard to risk taking, people vary enormously. In culture building terms, the balance in risk types and their representation either across the organisation or within departments is a factor in shaping culture. A number of psychometric tools can facilitate this and one such tool, the Risk Type Compass™, places individuals into one of eight risk types and can provide an overview of the risk landscape and the prevailing risk culture. At the boardroom level, the balance of risk types has a significant influence on team dynamics and affects the collective perception of risk, willingness to take risks, inter-personal perceptions, information sharing and decision-making. More information about this can be found in Chapter 4. The results of our research into the personality type of risk professionals can be found in Appendix 3 and some additional information on how people understand risk – their 'Risk Intelligence'- is included in Appendix 4.

Personal ethics

Organisations need to pay attention to the ethical profile of those working in their business. Every individual comes with their own balance of moral values and these have great influence over the decisions they make on a day-to-day basis. Psychometric tools can be used to assess moral values. One such tool, Moral DNA™ evaluates ten core moral values (e.g. courage, prudence, trust, fairness, honesty) that map to three ethical consciences, significantly influencing individuals' decision making:

• ethic of obedience (rule compliance, spirit of the law etc.)

• ethic of care (empathy, concern, respect etc.)

• ethic of reason (wisdom, experience, prudence etc.)

Used across an organisation such a tool can assess the overall ethical biases. At an individual level, it can highlight tendencies that have been shown to be prevalent in poor decision-making, leading to reputational disasters. Interestingly, analysis of the results of these tests over a large number of individuals show that the preference for decision making based on the ethic of obedience (or rule compliance) increases when they go to work. However the ethic of care becomes suppressed, as shown in the graph below. People at work become less likely to think, question or challenge instructions. More information about personal ethics within the organisation can be found in Chapter 5.
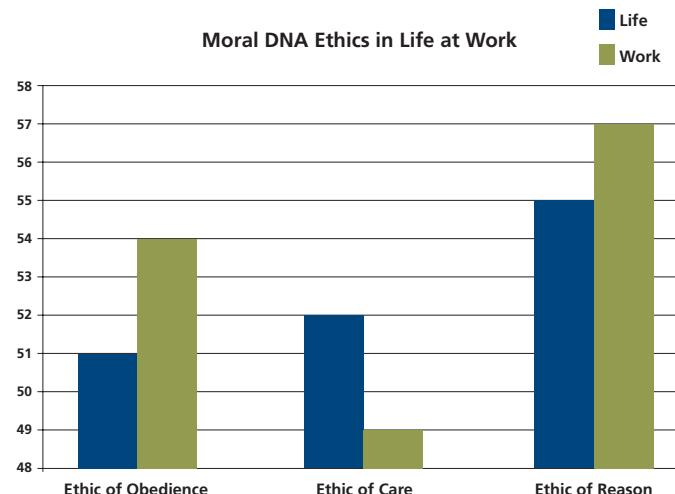
Fig 2.2 Individual Ethics in Life and at Work

The organisational level

Individual values and beliefs and attitudes towards risk contribute to and are affected by the wider overall culture of the organisation. We have found it useful to employ a sociability vs. solidarity model (Goffee and Jones, 1998) (also called the "Double S" model) which considers culture in relation to two key dimensions:

• sociability (people focus - based on how well people get on socially); and
• solidarity (task focus - based on goal orientation and team performance).

The model identifies four distinct organisational cultures, described as:

• Networked (high on people focus, low on task focus)
• Communal (high people, high task)
• Mercenary (low people, high task)
• Fragmented (low people, low task).
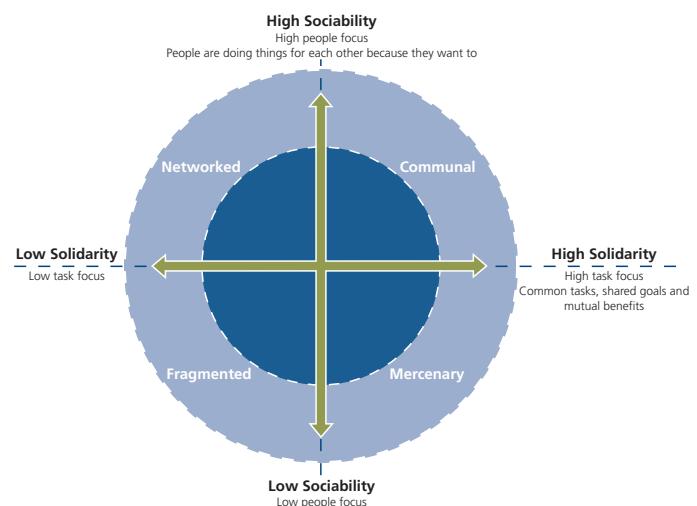
Fig 2.3 Sociability v Solidarity (Double S) Model

This Double S model offers a cultural view of the organisation and a useful complementary diagnostic. In particular it is good at predicting the success with which structured approaches to managing risk are implemented in organisations. Strong sociability ensures a sense of cohesion and common purpose in working across organisational boundaries. Strong solidarity is helpful in ensuring that risk mitigation plans are acted upon.

Each culture in the model, even in its most positive form, has both an upside and a downside in respect of risk management performance. However, research undertaken by the IRM (Institute of Risk Management, 2012) indicates that organisations should seek to strengthen both their sociability and solidarity ratings in order to implement risk management more effectively. Low scores on either factor create a barrier to the effective management of risk.

More information about this model can be found in Chapter 3 and a detailed background to organisational culture is set out in Chapter 6. The results of the IRM survey into the sociability and solidarity context for ERM implementation can be found in Appendix 2.

Improving risk management within the existing organisational culture

In the short term, it may be necessary for boards to focus on improving risk management within the existing culture by understanding that culture and then designing a culturally sensitive enterprise risk management programme.

So, for example, to drive engagement with risk management in an organisation with a 'Networked' culture (with high levels of social interaction and low tolerance for rules and procedures) participative risk workshops may be a successful tool. By contrast, in an organisation with a 'Mercenary' culture, regular reporting and risk information systems might be implemented more successfully. The drive here is to 'go with the grain' of the existing organisation culture.

IRM Risk Culture Aspects Model

This model (see Fig 2.4 below), developed by the IRM, identifies eight aspects of risk culture, grouped into four themes, key indicators of the 'health' of a risk culture, aligned to an organisation's business model. Diagnosis can be by means of a simple questionnaire or structured interview techniques. A gap analysis provides pointers to areas of strength and weakness and hence allows prioritisation and focus to be brought to what can be a difficult set of issues to grasp.

The focus is on identifying tangible actions that can be taken to address areas of concern, drawing from a tool kit. The model presupposes a continuous improvement approach where a risk culture is moved incrementally and performance tracked over time. It is important to recognise where positive culture cycles need to be reinforced, and vicious cycles broken, to make a step-change improvement. More information about the culture cycles model can be found in Chapter 7.

This approach, set out diagrammatically below, requires the organisation to self-assess in the areas of:

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 - the embedding of risk management skills across the organisation

Decision making
- well informed risk decisions
- appropriate risk taking rewarded and performance management linked to risk taking.

Fig 2.4 IRM Risk Culture Aspects Model

The risk culture aspects model links with the sociability vs. solidarity analysis through planned action to address deficiencies in the current culture. The interventions required may relate to driving an increase in the levels of sociability and/or solidarity and pushing the organisation into a position more conducive to effective risk management.

The risk culture aspects model specifically links the aspects shown in blue in the diagram to greater impact on sociability and the red aspects to improvements in solidarity. More detail can be found in Chapters 8, 9 and 10 on this subject.

In Chapter 11 we have an account written for us by Protiviti which gives some further practical pointers on understanding and changing aspects of risk culture.

Changing a risk culture

And lastly, we talk about change. IRM believes that it is possible for an organisation to drive change in its risk culture. This requires a clear understanding of the current culture and the desired 'target' culture. It requires 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. A culture cannot be rewritten simply by mandating that the values or ideology of an organisation have changed.

The organisation must approach the risk culture change as a project, with a set of objectives, a design for intervention and with regular reviews of both progress and outcomes. Change can be implemented by pulling on certain 'levers' to make noticeable change in important areas. Risk management will need to work closely with HR on a number of key change areas.

We recognise that this is not a precise science - there is no 'recipe book' answer. However there are a range of well recognised models, tools and approaches that have been proven in certain situations to be valuable in supporting and sustaining culture change. Further guidance can be found in Chapter 12.

Successful change ultimately requires awareness that the board itself, and the executive management, are an integral part of the existing risk culture. Sustained change in the risk culture needs to start at the top and may require a reappraisal of approaches consistent with bringing greater diversity of thinking into the boardroom.
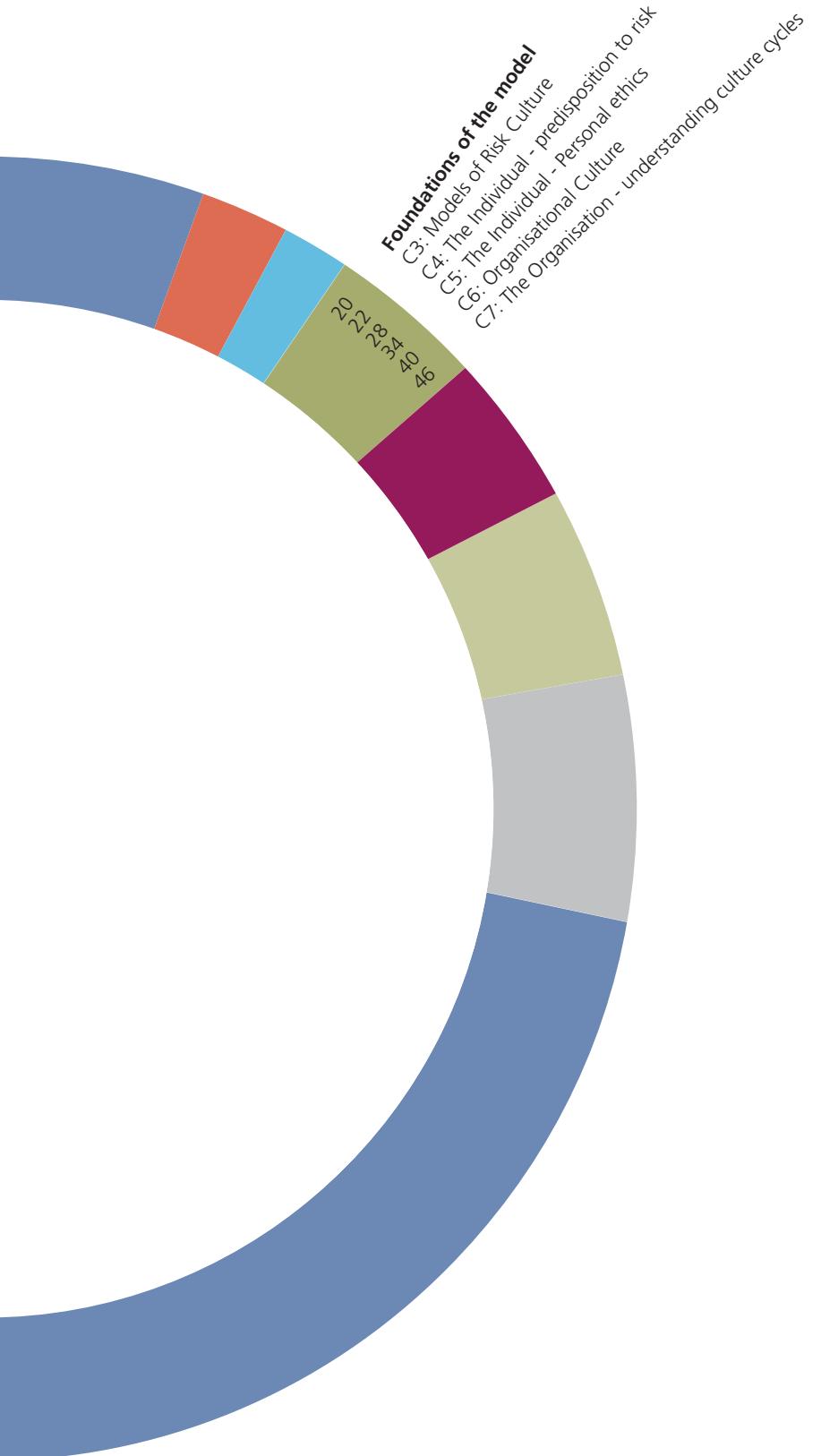
To change a risk culture, we have to be able to describe the vital aspects of that culture. Risk culture remains challenging to measure but, as commonly but possibly inaccurately attributed to the late Professor Peter Drucker, 'If it can't be measured it can't be managed'.

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Chapter 3: Models of risk culture
David Hillson, Philip Linsley, Keith Smith, Alex Hindson and Ruth Murray-Webster

This chapter looks at the various models of culture and risk culture that have underpinned the IRM's risk culture work.

First principles and a generic model

Before considering risk culture, we should first be clear about organisational culture in general: what is it and where does it come from? The body of knowledge on this subject is too large to summarise here, but we can usefully start by outlining some foundational principles, based on a simple A-B-C model. This model reflects the following considerations:

The *Culture* of a group arises from the repeated *Behaviour* of its members

The *Behaviour* of the group and its constituent individuals is shaped by their underlying *Attitudes*

Both *Behaviour* and *Attitudes* are influenced by the prevailing *Culture* of the group.

These relationships are illustrated in Figure 3.1.
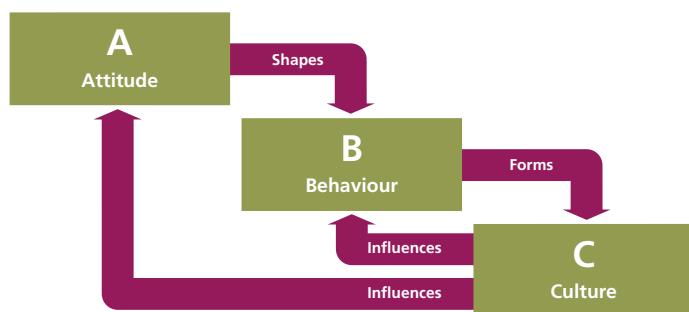
Figure 3.1: The A-B-C Model (Attitude-Behaviour-Culture)

The following definitions apply to the A-B-C model:

Attitude is "the chosen position adopted by an individual or group in relation to a given situation, influenced by perception"

Behaviour comprises external observable actions, including decisions, processes, communications etc.

Culture is "the values, beliefs, knowledge and understanding, shared by a group of people with a common purpose".

Each of the three elements in the A-B-C model has a risk variant:

Risk attitude is "the chosen position adopted by an individual or group towards risk, influenced by risk perception"

Risk behaviour comprises external observable risk-related actions, including risk-based decision-making, risk processes, risk communications etc.

Risk culture is "the values, beliefs, knowledge and understanding about risk, shared by a group of people with a common purpose".

One key feature of the A-B-C model is the feedback loop back from Culture to both Attitude and Behaviour. This illustrates that culture is not static: culture is formed by behaviour which in turn is shaped by attitude, but also culture influences current and future attitudes and behaviours. It is important to distinguish between risk culture

and its inputs and outcomes, but the A-B-C model suggests that attitudes and behaviours towards risk are both inputs to risk culture and they are also both outcomes from it.

The A-B-C model also helps to distinguish between these three distinct elements that are often confused when people discuss risk culture. Two misconceptions are common:

- Firstly, risk attitudes are not the same as risk culture, so it is not correct to say that an organisation has a "risk-averse culture" or a "risk-seeking culture", because terms like risk-averse and risk-seeking describe different attitudes.

- Secondly, behaviour towards risk is not the same as risk culture, so it is inaccurate to talk about risk culture as "the way we do things around here in relation to risk", because "doing things" describes behaviours.

We should also note that the definition of risk culture suggests that it has a number of subsidiary components, including: values, beliefs, knowledge and understanding. These are addressed in more detail elsewhere in this document.

One key question to address at the outset is whether more than one risk culture can exist within a single organisation. We have defined risk culture as *"the values, beliefs, knowledge and understanding about risk, shared by a group of people with a common purpose".* Clearly an organisation is such a group, but it also usually comprises a number of subsidiary groups which each have their own identity and purpose (departments, functions, teams etc.). As a result, it is possible for groups within an organisation to develop and display their own distinct risk culture, reflecting the individuals within the group as well as the specific challenges and constraints relating to the group's purpose and performance. It is possible that the risk culture existing within lower-level groups could differ significantly from the overall risk culture of the wider organisation, although there is likely to be a top-down influence.

We should also consider whether risk culture is usually defined deliberately and intentionally or whether it typically emerges naturally within an organisation. In fact risk culture can be set from either direction.

Setting risk culture directly from the top requires a clear statement of intent from leaders in the organisation, laying out their vision and policy for risk management, describing their values and beliefs about risk, and explaining the approach that they intend to take in order to exploit risk and create benefits. The desired risk culture should be actively communicated to all staff, so no-one is in any doubt about how risk will be addressed within the organisation, and appropriate risk-related behaviour is actively promoted and encouraged.

A second option is to allow risk culture to emerge naturally. This approach concentrates on putting all the practical elements in place within the organisation to allow risk to be managed properly, with good people, processes and tools. As people across the organisation put risk management into practice within their routine jobs, they will start to experience fewer problems and enhanced benefits. As they see risk management working for them, people will recognise the importance of managing risk. Their belief in the value of risk management will reinforce the correct behaviour. A positive cycle is created where acting properly towards risk creates a strong risk culture, and that in turn encourages the right risk-related behaviour.

Both top-down and bottom-up approaches to developing risk culture work, and an organisation could adopt either approach: deal with risk culture first, or allow risk culture to emerge. Both have strengths and weaknesses, and management should consider carefully which approach would work best within their own particular organisational context, or whether to adopt a blend of both in order to encourage the optimal risk culture.

More detailed models of risk culture

The A-B-C model has the virtue of simplicity when describing how risk culture relates to attitudes and behaviour. However it does not help us to understand any of the detail of organisational risk culture and how this manifests itself in practice. Although there is no universal consensus on risk culture in terms of a widely-accepted definition or set of characteristics, several models have been developed which shed light on different aspects of the subject. The American statistician George Box famously wrote in 1987 that "Essentially, all models are wrong, but some are useful." (Box & Draper 1987) Recognising the truth of this statement, we present here four more detailed models that we believe reveal important perspectives of risk culture. These are:

- Cultural Theory of Risk
- Double S Model (Sociability vs. Solidarity)
- IRM Risk Culture Aspects Model
- Organisational Culture Profiling

None of these models provides a complete picture of risk culture, but each one offers useful insights.

Cultural Theory of Risk

The Cultural Theory of Risk (or simply Cultural Theory) was developed by anthropologist Mary Douglas and political scientist Aaron Wildavsky (Douglas and Wildavsky, 1982). Cultural Theory identifies four possible types of culture – hierarchical, individualistic, egalitarian and fatalistic – and asserts that each culture pays attention to risks in different ways.

An important aspect of Cultural Theory is that in any organisation or group all four cultures will be present, and although one culture may be dominant in any given period it may be superseded as another culture rises to dominance. Debates between the cultures are inevitable as they have opposing worldviews and Douglas uses the term 'cultural dialogues' to describe these debates.

It is therefore important for companies to be able to recognise the four cultures. Cultural Theory can explain the disagreements that arise as adherents of the different cultures 'defend' their risk perspective. For example:

hierarchists will want to embed a risk system in the company that defines risk appetite and establishes the risk-reward relationship

individualists will consider this limits their ability to make profits by engaging in risky ventures

egalitarians will believe this sanctions risk-taking when they would prefer a policy of risk avoidance

fatalists can see little point in such an exercise as any risk system simply impedes them from reacting as circumstances change.

Cultural Theory also contends that if the managers of an organisation can identify the four cultures and their attitudes to risk, they can then encourage each culture to engage with the other cultures. This not only ensures that all four voices are heard, but because they can all usefully add to the risk debates it can produce better risk management outcomes.

Figure 3.2: Grid-group model (after Underwood & Ingram, 2010)

The four types of culture result from Douglas' two dimensional grid-group framework, as shown in Figure 3.2. The group dimension concerns the level of commitment an individual has to other members of the group. 'High group' denotes that the individual places the aims of the group above his or her own aims, whereas 'low group' denotes the individual considers their own objectives more important. The grid dimension concerns the amount of freedom an individual has over their choice of social role. 'High grid' denotes that there are constraints on the social roles an individual can choose, whereas 'low grid' denotes that there are few restrictions upon social roles and individuals can freely choose who they wish to collaborate with.

"Culture is formed by behaviour which in turn is shaped by attitude"

Double S Model (Sociability vs Solidarity)

Goffee and Jones offered an analysis of possible organisational cultures (Goffee & Jones, 1998), based on two key dimensions, namely: sociability (people focus) and solidarity (task focus). Their Sociability vs Solidarity model (also called the Double S model) results in four distinct organisational cultures (see Figure 3.3), described as:

- Networked (high on people focus, low on task focus)
- Communal (high people, high task)
- Mercenary (low people, high task)
- Fragmented (low people, low task).

While Cultural Theory is orientated around the characters of the individuals who populate the organisation, the Double S model offers a cultural view of the organisation as a collective. As the approach is sufficiently different from Cultural Theory, it provides a useful complementary diagnostic in determining the culture of an organisation.

High Sociability
High people focus
People are doing things for each other because they want to

Networked

Communal

Low Solidarity
Low task focus

High Solidarity
High task focus
Common tasks, shared goals and mutual benefits

Fragmented

Mercenary

Low Sociability
Low people focus
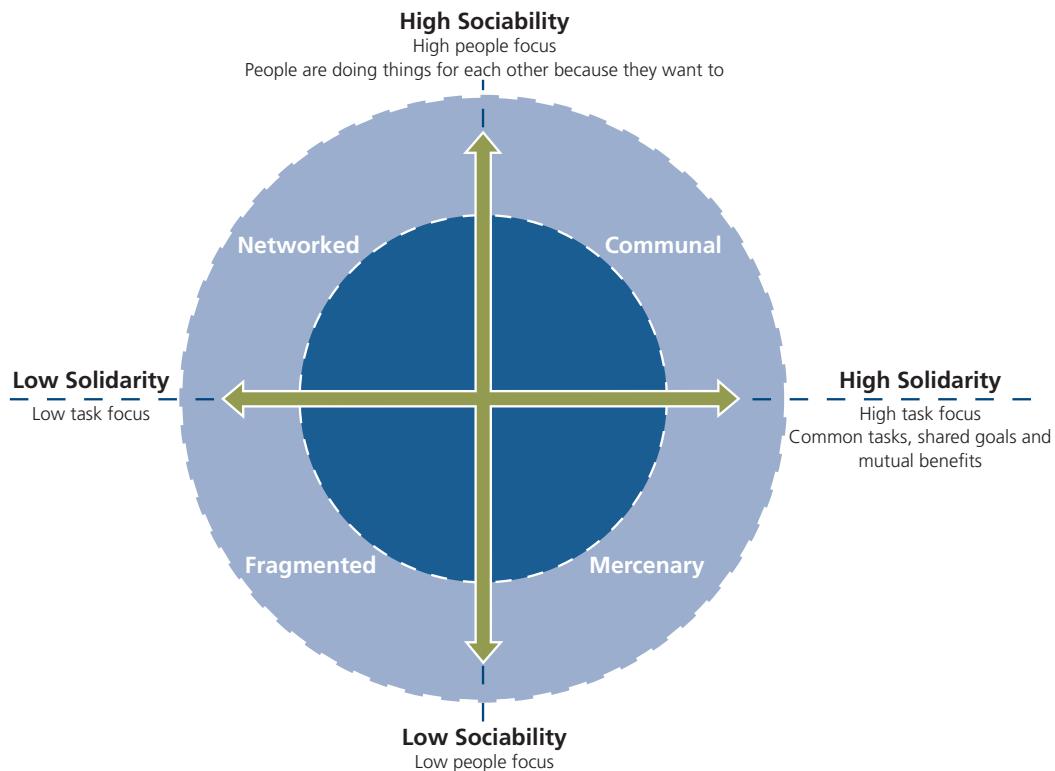
Figure 3.3: The Sociability vs. Solidarity (Double S) model (based on Goffey & Jones, 1998)

The Solidarity dimension of the Double S model covers common tasks, shared goals and mutual benefits. It does not include personal relationships, but instead is about team performance and goal achievement as the measure of success. The Sociability dimension addresses how well people get on socially, asking whether people do things for each other because they want to. The upside of high Sociability is a pleasurable working environment and high morale; the downside is that poor performance may be tolerated.

One of the enduring values of the Double S model is its simplicity, which makes it a practical tool for risk professionals to apply in an operational environment. However, simplicity should not be confused with either a lack of depth or a lack of rigour as the original work provides a comprehensive set of detailed tests for extensive cultural diagnostics. The other notable feature of the Double S model is its dependency on structured observation rather than survey, allowing the risk professional to conduct an analysis without affecting the culture that is under observation.

The starting point of the Double S analysis is a four-part test, each part of which is based on a single organisational dynamic. Together these four parts go a long way to determine the quadrant that best describes the organisation. These tests focus on use of physical space, the art of communication, the management of time and the demonstration of identity between culture members. The outcome of this first pass may be useful, but it is unlikely to provide the detail required for action. Specifically, there is a need to know if the culture is either positive or negative in the way it operates. Again, there are observational tests associated with this model that can be used to add this detail to the analysis.

Once the dominant culture has been identified, it is possible to consider how the Double S model may impact on the risk management performance of the organisation. Each culture in the model, even in its most positive form, has both an upside and a downside in respect of risk management performance.

IRM Risk Culture Aspects Model

The IRM Risk Culture Aspects Model (Hindson, 2010, and developed further in this document with contributions from José Morago) recognises that culture cannot be directly measured, weighed or touched. However the model proposes eight 'aspects', grouped into four 'themes', that need to be in place to ensure a healthy risk culture, aligned to the organisation's strategic objectives and business model. This model also offers a simple questionnaire as a diagnostic tool (see Chapters 9 and 10 on implementation guidance).

The four themes and eight risk aspects in this model are summarised in Table 3.1.

Theme	Aspect
Tone at the top	**Risk Leadership: clarity of direction** • Senior management set clear and consistent expectations for managing risks • Leaders role model risk management thinking and actively discuss tolerance to risk issues
	Responding to bad news: welcoming disclosure • Senior management actively seek out information about risk events • Those that are open and honest about risks are recognised
Governance	**Risk Governance: taking accountability** • Management are clear about their accountability for managing business risks • Role descriptions and targets include risk accountabilities
	Risk Transparency: risk information flowing • Timely communication of risk information across the organisation • Risk events are seen as an opportunity to learn
Competency	**Risk Resources: empowered risk function** • The risk function has a defined remit and has the support of leaders • It is able to challenge how risks are managed
	Risk Competence: embedded risk skills • A structure of risk champions support those managing risks • Training programmes are in place for all staff
Decision Making	**Risk Decisions: informed risk decisions** • Leaders seek out risk information in supporting decisions • The business's willingness to take on risks is understood and communicated
	Rewarding appropriate risk taking • Performance management linked to risk taking • Leaders are supportive of those actively seeking to understand and manage risks

Table 3.1: Themes and aspects in the IRM Risk Culture Aspects model

One of the leading indicators of risk culture is how management responds to bad news. The extent to which senior management encourages reporting of risk events and ensures learning is captured and shared to prevent recurrence is critical. 'Shooting the messenger' sends a very rapid signal as to how openly risk issues can be discussed, as is evident from a series of 'whistle-blower' incidents in the media.

Based on the IRM Risk Culture Aspects model, it is possible to define organisational cultural types using two dimensions (see Figure 3.4 overleaf):

Governance spirit – the extent to which rules are followed and the organisation wants to have shared goals and 'common meanings' in terms of what it is trying to achieve.

Pressure to conform – the degree to which staff 'buy in' to a common set of behaviours and the organisation creates a strong pressure to adopt a shared system of meanings.
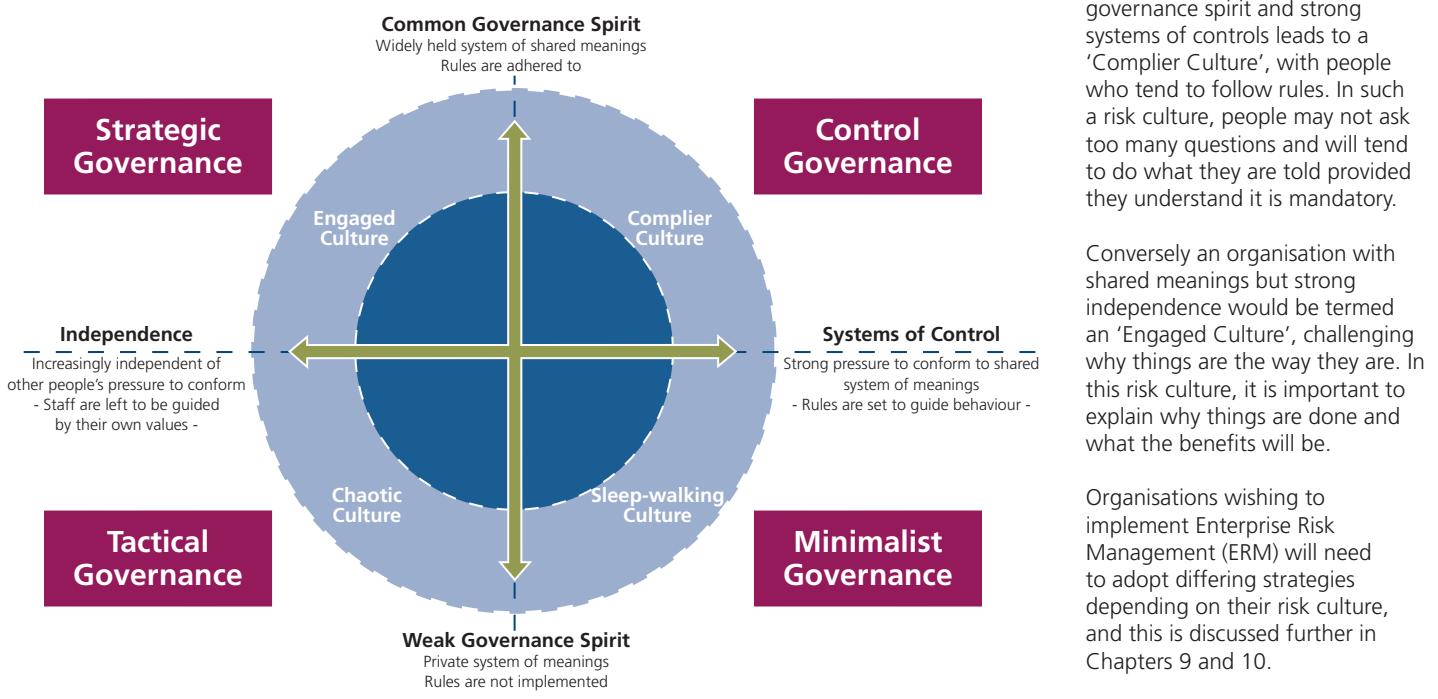
Figure 3.4: Risk Aspects Model of Risk Culture

For example, a strong common governance spirit and strong systems of controls leads to a 'Complier Culture', with people who tend to follow rules. In such a risk culture, people may not ask too many questions and will tend to do what they are told provided they understand it is mandatory.

Conversely an organisation with shared meanings but strong independence would be termed an 'Engaged Culture', challenging why things are the way they are. In this risk culture, it is important to explain why things are done and what the benefits will be.

Organisations wishing to implement Enterprise Risk Management (ERM) will need to adopt differing strategies depending on their risk culture, and this is discussed further in Chapters 9 and 10.

Organisational Culture Profiling

The academic work of Gilles Spony (Spony, 2003) has been developed into an integrated model that enables individuals, teams, and organisations to determine preferences for different behaviours based on an understanding of 'work-values'. These are defined as the in-built preferences for how relationships are built and nurtured and tasks are accomplished, as well as the tensions between different styles of management.

At an organisational level, Spony's diagnostic helps organisations understand how they reconcile the dilemma between process/stability and flexibility/change, and similarly how they reconcile the dilemma between achieving results/progress and nurturing team/relationships. This method of diagnosing and articulating organisational culture sheds light on a number of risk-related organisation preferences, for example, the degree to which managers are conditioned and expected to "go for growth with a 'can-do' attitude" if the organisation is focused on results and change, or the degree to which managers are conditioned and expected to "comply at all costs" if the organisation is focused on process/stability.

Figure 3.5 shows an example output from the Spony organisational culture profiling model.
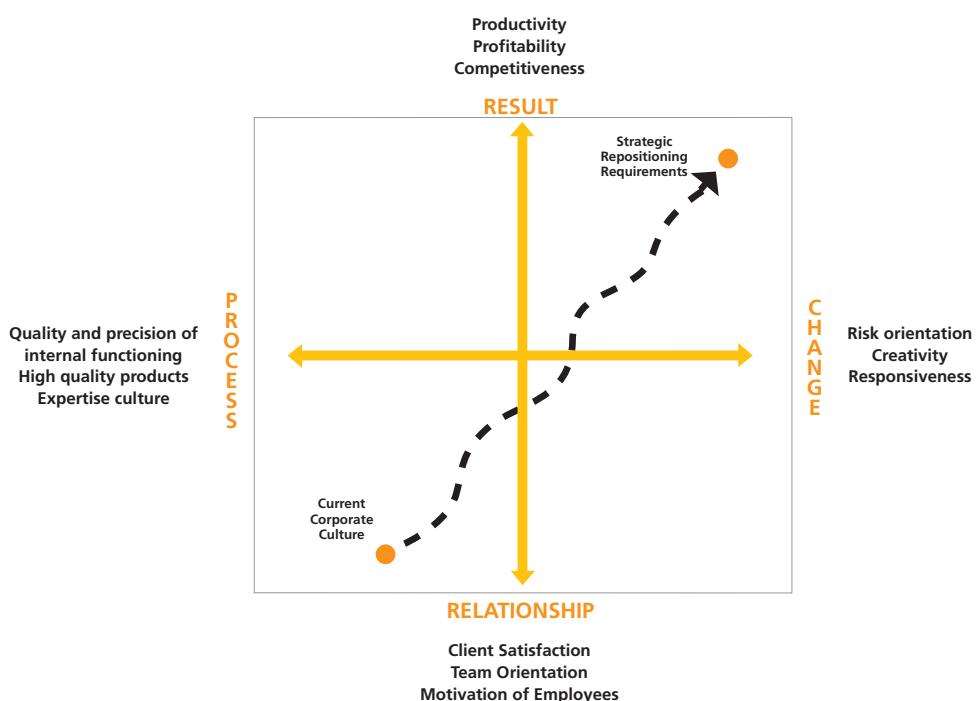
Figure 3.5: Example of Spony Organisational Culture Profiling chart
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Conclusion

This chapter has presented several current models of risk culture that each describe important aspects of the topic, and which taken together give a more rich picture of what risk culture means in practice. This review of existing models indicates what is currently known about risk culture and outlines areas where consensus is lacking. No one model presents the whole truth, but each offers key insights that must be considered. The existing models also present different components of risk culture that need to be taken into account if a more holistic approach is to be developed.

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Chapter 4: The individual – predisposition to risk

Geoff Trickey and Grace Walsh.

This chapter looks at the individual and risk types and how this impacts on the risk culture. It is based on a particular approach that we have found helpful and which the originators have been willing to share with IRM, although other approaches are also, no doubt, available.

"Risk Culture", with its implications of a deeply entrenched set of influential and effective risk attitudes, has an obvious appeal as a vehicle for risk management, potentially opening doors to new possibilities and solutions. The practical difficulties associated with this approach arise from uncertainties concerning the definition of culture and, as a consequence, uncertainties about its mechanisms, its constituent parts, or its processes. When it comes to action, intervention or influence, it is difficult to know where the levers are, which to pull or how to get to grips with culture.

Attempts to assess organisational culture usually rely on survey information from across the target population, or a sample of it. The problem with pooling data in this way is that, whilst general trends may emerge, the rich detail is easily lost in the process. The challenge in trying to make sense of large amounts of data is to avoid averaging out the very details that may best characterise particular divisions, departments or the organisation as a whole.

Against this background, approaching risk culture from the perspective of the individuals of which it is composed has some particular advantages.

The people make the place
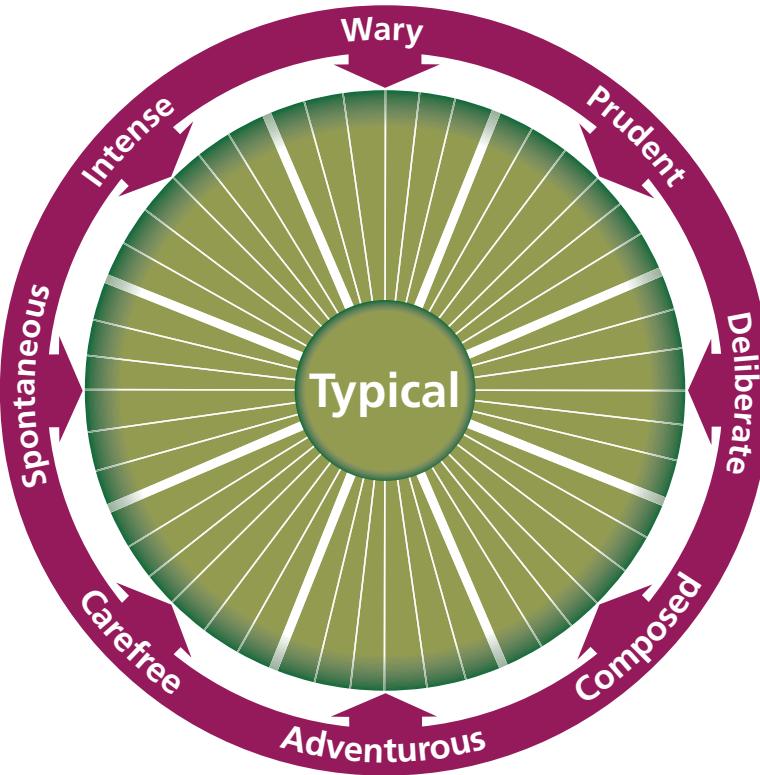
Organisational culture is, at the micro level, inevitably tied to the individuals of which that culture is composed. All models of organisational culture recognise this, either explicitly or implicitly. Schneider's 'the people make the place' theory of culture is the

clearest example of this approach and it has been very influential (Schneider, 1987). He describes a broad mechanism that links individuals to culture in his 'Attraction, Selection, Attrition hypothesis' (ASA). In Schneider's view, as the culture of the organisation becomes distinctive, it attracts likeminded people (attraction), the selection processes increasingly favour those that 'fit' (selection) and appointees that don't fit leave or are fired (attrition). This approach has some synergy with the Culture Theory of Risk described in chapter 3, in that the culture is determined by the nature of its membership, broadly grouped, in that case, according to the dispositions and perceptions of the Four Rationalities. The most obvious omission from Schneider's ASA model is that it ignores the 'fly wheel' effect of culture and the time-lag that we know as 'tradition'. A modified definition might be 'the people, past and present, make the place'. Culture is always a mixture of the influence of its current membership combined with the legacy of the past.

Risk type

People naturally vary in all sorts of ways and this includes their predisposition towards risk. Two aspects of personality contribute to this. Firstly, the extent to which they are either spontaneous and challenge convention or are organised, systematic and compliant. Secondly, they may be cautious, pessimistic and anxious, or optimistic, resilient and fearless. The Risk Type Compass™ is a recently developed tool based on consensual, well researched and validated personality assessment practices. Its basic rationale is that, with regard to risk taking, individual differences are deeply anchored in the personality. This doesn't make their every act precisely predictable, but Risk Type does have a pervasive and persistent influence. In culture building terms, the balance of Risk Types and their representation either across the organisation or within departments will be discernable.

The Risk Type Compass™ places individuals in to one of eight Risk Types which range in levels of risk tolerance and have a fundamental influence on the way an individual is likely to perceive and handle risk and make decisions. For illustrative purposes, the eight Risk Types can be characterised broadly as follows:

Figure 4.1 The Risk Type Compass™

Wary - (Very Low risk-tolerance)

This Risk Type is likely to be self-disciplined, cautious, uneasy and conservative. Ultra sensitive about vulnerability to risk, they are zealous and fervently seek to control.

Intense - (Low risk-tolerance)

This Risk Type is likely to be ardent, anxious, edgy and passionate. They invest passionately in people and projects but, haunted by the fear of disappointment, this often becomes a self-fulfilling prophecy.

Spontaneous - (Average risk-tolerance)

This Risk Type is likely to be excitable, unpredictable, enthusiastic and impulsive. Like moths to a flame, they are attracted by the idea of spontaneity and risk, but live to regret decisions made in haste.

Adventurous - (Very High risk-tolerance)

This Risk Type is likely to be uninhibited, fearless, challenging and venturesome. Both fearless and impulsive, they are prepared to try things that no-one has ever tried.

Prudent - (Low risk-tolerance)

This Risk Type is likely to be detailed/organised, systematic and conscientious. Their primary concern is to bring order to everything and to eliminate risk and uncertainty.

Carefree - (High risk-tolerance)

This Risk Type is likely to be easy-going/excitement seeking, unconventional and impetuous. They relish the excitement of on-the-fly decision making required in fast moving situations.

Deliberate - (Average risk-tolerance)

This Risk Type is likely to be analytical, investigative, calm and business-like. Calculated and sure-footed, they test the ground and never go into anything unprepared.

Composed - (High risk-tolerance)

This Risk Type is likely to be cool headed, self-contained and imperturbable. Strangers to anxiety and oblivious to risk, they keep their heads when others lose theirs.

Typical group; about 10% of the population scores close to the mean on each of the scales underpinning Risk Type and cannot usefully be differentiated. Such people will fall into the Average group for risk tolerance.

The degree to which an individual represents their Risk Type is demonstrated by the strength of their Risk Type. There are five levels of strength, ranging from Very Mild to Very Strong. The nearer the marker is to the outer edge of the compass graphic, the stronger the Risk Type and the more likely it is to influence the Risk Culture. Although the relevance of the Risk Type approach can be simplified in terms of 'the whole is the sum of its constituent parts' it is important to highlight that certain individuals will have greater influence on a group or organisation than others, particularly if their role is more senior or prominent.

The benefits of a typology

The great advantage of approaching culture from the perspective of the constituent individuals is that Risk Type is measurable in a way that almost nothing else associated with risk culture is. We refer above to the difficulties arising from loss of detail when survey data is aggregated. Approaching risk culture through Risk Type ensures that this framework is retained, offering some resistance to the levelling out processes. From the Risk Type perspective, you can view the risk landscape in a very tangible way. Across the organisation, functions, or levels of management or within sections, departments or teams, you know where the different Risk Types are most concentrated, or where there is underrepresentation or complete absence of a Risk Type. In risk management and organisational development terms this is powerful information, a point expanded in the Applications and Interventions section overleaf.

From risk type to risk culture

Risk culture mapping

Number and balance of Risk Types and their distribution across the organisation or within departments will inevitably influence the culture of the organisation. As a consequence, in survey mode, the Risk Type Compass™ can provide an overview of the risk landscape and the prevailing risk culture. This can be conveyed graphically in a number of different ways offering the Risk Manager different and complementary perspectives.

We have used three different approaches to mapping the composites of group data. All three mapping processes are available from any Risk Type culture survey. We refer to these approaches as A) Scattergram, B) Risk Type Influence and C) Spidergram. A comprehensive survey report might use any combination or all three and at different levels of segmentation according to the structure of the organisation and the purpose of the analysis.

A) Scattergram (Risk Type Group)

This is the simplest approach but one that benefits from 100% retention of the granulation of the original data; nothing is lost. Each of the individual Risk Type Compass assessments is plotted across departments, job levels, function, seniority, division or other group according to the desired segmentation planned for the project. Analysis of these findings would focus on the degree of convergence and diversity, identification of factions and outliers and the overall balance of Risk Types at the group level as well as for the aggregated data for the total sample. The balance and skew of the scattergram is considered against the expectations for each sub-group. For example, more risk-takers may be anticipated in the research and development team or marketing team as compared to the internal audit or risk management teams. 'Group think' might be a concern as a consequence of too many similarly-minded individuals occurring in the boardroom, or lack of Adventurous Types might be a concern in the business units. Attitudes and behaviours that seem potentially detrimental to the company can be investigated rather than going unchallenged and reinforced.
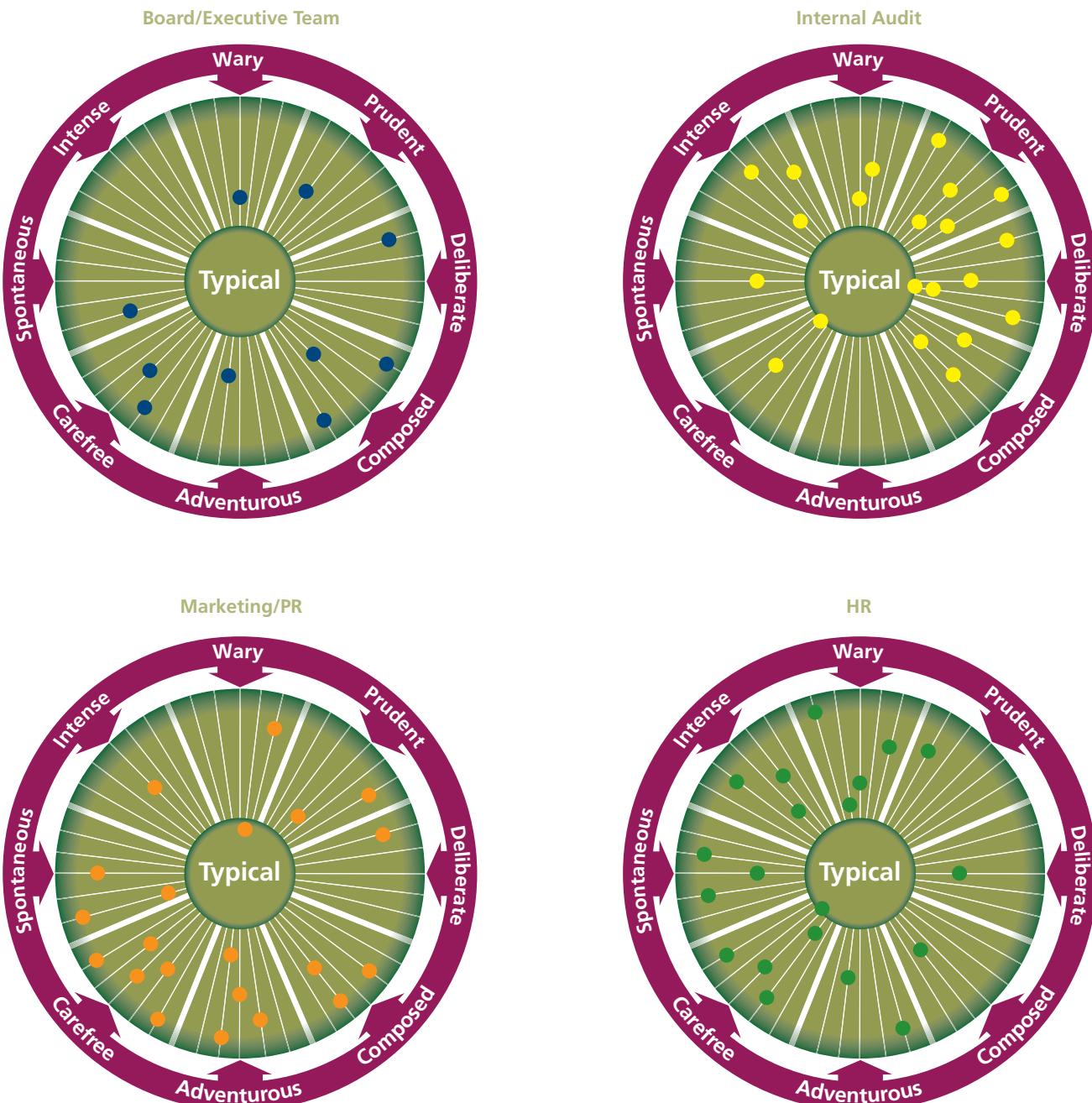
Figure 4.2 Scattergram presentation of Risk Type assessments

Interpretations and inferences for a risk management strategy can be made from convergence, divergence, and absence of Risk Types.

B) Risk type influence

This approach recognises the differences in the influence an individual will contribute to the overall risk culture due to the strength of their Risk Type.

Assessing the overall influence of each Risk Type on the team dynamic involves looking at:

I.   The proportion of each Risk Type in the team
II. The strength of Risk Type characteristics
III. The combined impact of prevalence and strength of each Risk Type.

The larger the circle in the diagram, the stronger the degree of influence of that Risk Type on the group.

In this form the graphic is objectively and arithmetically derived from test scores. However, additional weightings can be introduced to reflect different 'what if' scenarios. Various demographic factors can be investigated in this way considering, for example, level of qualification, status, years of experience or other socio-metric data.
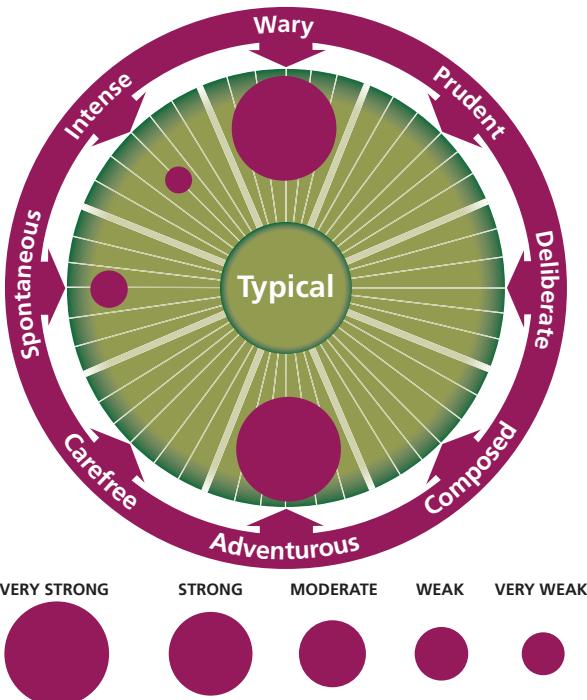
Figure 4.3 Risk Type influence presentation

C) Spidergram (risk culture)

The focus in this approach is purely on the percentage of each Risk Type in the group or organisation. As with any of these approaches, a nested series reflecting the organisational structure could drill down to focus on different departments, functions, levels or professional specialisms.
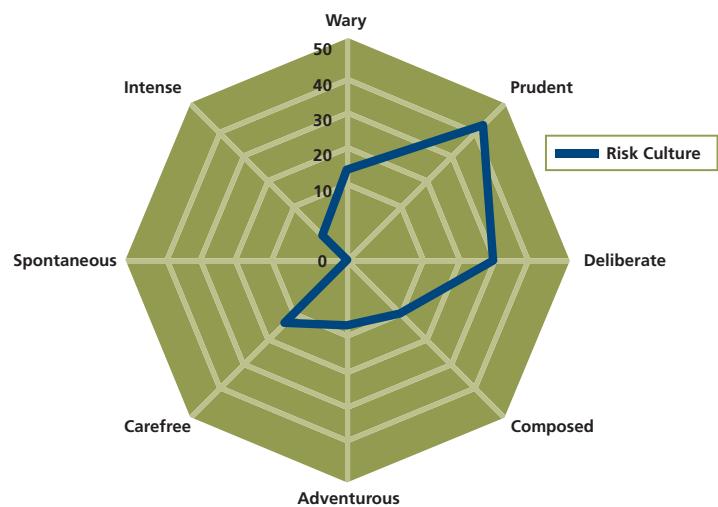
Figure 4.4 Risk Type Spidergram presentation

These mapping devices can also be supplemented by a composite Risk Tolerance Index (RTI) scale. This overall metric summarises the propensity for risk taking of the team, department, strata, or section and complements the more detailed Risk Type graphics. It can also give a measure of the overall risk tolerance of the organisation and inferences regarding overall risk culture can then be drawn from this.
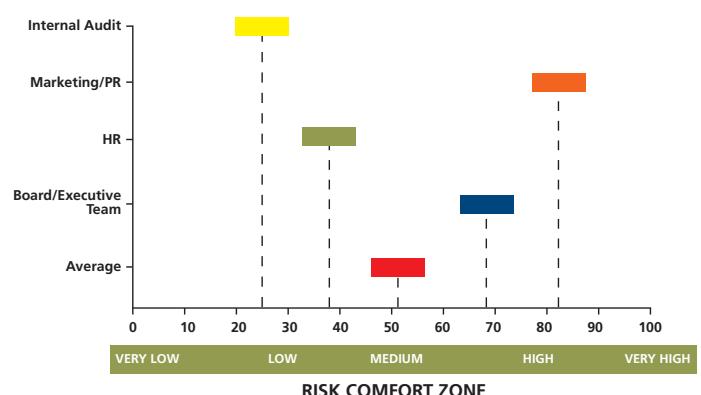
Figure 4.5 Composite risk tolerance presentation

Understanding how an employee perceives risk, thinks about risk and responds to risk (i.e. their Risk Type), is very beneficial when developing and implementing a risk management strategy. The Risk Type of the risk manager is likely to be quite different to that of a senior executive or board member, the sales director or even the auditing and compliance teams. So it is necessary to consider the Risk Type bias influencing the approach of the risk manager as well as respecting the diversity of the individuals towards whom a risk management strategy is directed. Self-awareness is as valuable to risk managers as it is desirable in those at the workface.

Practicalities: applications and interventions

We consider here two distinctly different risk culture development models. The first considers the utility of assessment of Risk Type within the traditional 'survey based' culture change project. In this model, the Risk Type Compass questionnaire provides the data, taking the place of a more conventional set of survey questions. In the second, we propose a 'cascade' project model; in essence a series of Risk Type team development events that start in the boardroom and then work down through successive management levels of the organisation. In both cases, the mechanisms for change are increased understanding and awareness about individual differences in risk disposition and their implications at personal and group levels.

The survey style model

Because the approach advocated here accumulates detailed information at the level of the individual and also describes risk culture using the same Risk Type framework, a risk culture project has multiple potential intervention strategy options. A number of possibilities are briefly outlined below:

Organisational level

a) Profiling and mapping the total organisational risk culture
Using total or significant sample data, map the organisation in terms of propensity for risk (RTi) and prevalence and influence of Risk Type.

b) Segmenting team/ departmental/ group risk dynamics
Focusing on the segments that are meaningful to the organisation, (departments, functions, divisions, regions etc.) and identifying the balance in risk taking styles that best characterises that unit.

c) Mapping the 'risk landscape' of managed units
Reviewing the fine grain provided by Risk Type survey data to explore the prevalence of different Risk Types and where they are concentrated, dispersed or absent within the organisation.

d) Strategic planning and risk policy development
Using the Risk Type survey data, linked to performance observations, to inform discussions about the suitability (benefits or challenges) posed by the current distribution and balance of Risk Types within the organisation. And to consider what interventions might be most fruitful.

Group/team level

e) Profiling and mapping the team Risk Type composition
Exploring the prevalence and balance of Risk Types within the team and considering team dynamics in that light.

f) Reviewing team functioning in the light of Risk Type
Exploring the relationship between Risk Type composition of the team and its performance.

g) Managing the balance of risk-taking tendencies
Using the team data to explore imbalances and gaps in their Risk Type profile, seeking to improve team capability through a combination of training, recruitment or redeployment.

h) Team building
Coaching teams in dealing with the particular challenges posed by their Risk Type constitution and the challenges that they face.

Individual level

i) Self-discovery and awareness of propensity for risk
Using assessments of Risk Type and risk attitudes to increase an individual's understanding of their propensity for risk and their associated risk behaviour.

j) Coaching and self-management
Building on their awareness of their Risk Type and attitudes to risk, advise and support their development in maximising the benefits and compensating for the vulnerabilities associated with their profile.

k) Developing awareness of others
Increasing interpersonal effectiveness in dealing with other Risk Types through an improved awareness and understanding of the implications of those profiles.

l) Redeployment
A focus on Risk Type provides the opportunity to develop teams, departments and functions on the basis of risk aspects of personality. The deeply rooted nature of these differences means that any mismatch between role and propensity for risk creates demands on the individual that may not benefit them or the organisation. However, since all Risk Types have their advantages as well as their disadvantages, redeployment within the organisation could be mutually beneficial.

The 'cascade' project model

There are three elements to a 'risk culture change' project. The survey model is concerned with diagnostics and characterisation of the current risk culture. This provides the basis for goal setting and planning which, in turn, establishes a basis for an intervention phase. To the extent that the cascade approach is itself a part of the change process, it integrates all three phases.

The process

The process begins and ends in the boardroom. At boardroom level, the first task is to explore the balance of Risk Types amongst board members, then to consider the likely impact that this particular configuration will have on the group dynamics and on perception of risk, willingness to take risks, inter-personal perceptions, information sharing and decision making.

Key objectives are: first, to increase understanding of the nature of risk disposition and to enhance self-awareness and group awareness; secondly, to get a picture of the distinctive risk characteristics of the board as a whole (its own risk culture); thirdly, to identify potential emphases or biases that might be expected; and fourthly, to gauge the comparative risk disposition of the board within an industry context and the balance between the organisation's current opportunities and competitiveness, the longer term risks and its security.

Looking inwards, these diagnostic explorations might inform discussions about procedures and processes of the board as well as strategic considerations about the balance of the board in terms of the risk dispositions of its members.

Looking outwards, the board would consider the likely risk management implications for the wider organisation, identifying the broad agenda for the consideration of senior managers mediated through a similar group process.

The 'cascading' of these processes through the organisation is guided at each level by the insights and experience of a higher level of managerial responsibility and by the broad agenda set out by the board. At each level, there is a critical review of the balance of Risk

Types and its appropriateness for that level, function or business unit. Issues are raised, insights gained and proposals are discussed within the immediate context of demands and operations at that level. Finally, the survey data (e.g. distribution or Risk Types, prevalence at each level) and the observational information (e.g. issues, insights and suggestions) are reported back to the board to support informed risk culture policy discussions (e.g. desired cultural values, strategies for their promotion, recognition of differentiation by role/function).

The benefits

There are several benefits to the cascade approach. First, there is boardroom involvement, support and direction from the outset. A 'lack of management or board direction' was identified by 41% in a recent IRM survey (see Appendix 1) as the biggest challenge for risk culture development, affirming the importance of this point. Secondly, it accommodates to the view that risk culture may be more 'mosaic' than 'monolithic', and offers a more flexible interpretation of project objectives within the realities, restraints and opportunities apparent at each level. Thirdly, the inherent link between the individual and his/ her own risk issues and the organisation's policies and procedures, is accommodated within a common conceptual matrix and the same Risk Type language and taxonomy. Fourthly, the process accrues a wealth of personnel data to support many of the development processes outlined above within the Survey Model section. Finally, the inclusiveness of this approach democratises the process to the benefit of subsequent 'buy in' across the organisation for any strategies or policies that are developed.

Friendly fire or collateral damage

The ability to differentiate people according to their deeply rooted propensity for risk-taking throws up particular issues for the management of risk culture. Risk issues are related to function. Sales and marketing need more adventurous people while accounts and compliance need to be more risk averse. This 'horses for courses' view of risk cuts across the idea that people are infinitely flexible and can be dragooned to submit to a risk regime of choice, whatever that may be. By dealing holistically with culture, there must be a concern about unintended consequences. It is certainly conceivable that efforts to install a designed risk culture could be too successful and have unintended consequences in the form of a performance decrement. The creation of a compliant or risk-averse culture that extends beyond appropriate risk issues may blunt the entrepreneurial or enterprise focus on which that organisation depends for its survival. Arguably, this has been a factor behind many headline stories involving public bodies and Health and Safety, some of which have generated wide-spread criticism of the emergency services. Risk Culture initiatives need to be targeted, controlled and managed appropriately if this to be avoided.

Businesses need to balance risk against opportunity. They need risk takers as well as more cautious types. Success in any organisation requires a balance between innovation, seeking new opportunities, steering the business through the sometimes turbulent realities of the commercial and financial worlds and, on the other hand traditionalists who cling to the methods and strategies that have been successful in the past and who are, by nature, wary of the risk inherent in any innovation or change.

The danger with the concept of Risk Culture might be that, because it aspires to pervasive influence at the organisational level, it has a generally suppressive or depressive effect. The engines that drive the organisation and keep it moving forward may, in effect, be immobilised by the inherent conservatism of compliance.

The implication of this argument is that risk management has to embrace both sides of the risk/opportunity equation: addressing the challenges of Risk Culture that are out of balance in either direction; being either too risk-taking or too risk averse.

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Chapter 5: The individual – personal ethics
Peter Neville Lewis

"Integrity has no need of Rules"
Albert Camus

This chapter looks at defining and measuring ethical behaviour within organisations and argues that the culture at board and senior levels in an organisation determines its governance structures and risk appetite. It is based around a particular model that we have found helpful and which the developers have been willing to share with us although other approaches are available.

We argue that there should be:

- a clearly defined and articulated 'moral purpose' reflected in the assimilation of true values (not "desired outcomes") from top to bottom
- values based decision making
- a corporate framework which embodies a complete range of leadership skills and styles at all grades.

Risk Management and Decision Making

Managing risk is all about people making the best decisions. It is not just about strategy and tactics – it is even more about the judgements and behaviours of people.

- A business should have a moral purpose
- A business should be a community of belonging
- A business should allow its people to bring their humanity to work

People fundamentally want to do the right thing. It is therefore highly advisable for organisations to create a decent, open and respectful culture which allows human beings to interact at work as they would in their home/social environment.

This is the culture which mitigates risk and reputational damage, encourages higher performance and the profitability which ensues and develops a sustainable and ethical business model.

Clear examples of this are the John Lewis Partnership, Arup and the Co-Op in the UK, W L Gore, South West Airlines and UPS in the US, Mondragon in Spain, Semco in Brazil and Tata in India. All have been in business for a considerable period of time without endangering their existence through faulty decision making and careless behaviours.

They represent some of the most respected and successful business models in the world today and it is the deep seated culture of care, respect for ALL their stakeholders and the ability to do the right thing consistently, to the best of their ability, which has won them this reputation.

How might one therefore go about assessing the risk culture of an organisation? If we accept a simple premise that all risk/reward is driven by decision making and behaviour, we need to understand the prime drivers.

The importance of judgement

A cause and effect flow chart would show that the decisions which result in actions/behaviours derive from judgements made. These are largely determined by individual character, how we evaluate circumstances, experiences and people based on our personal interpretation of deeply rooted core moral values such as courage, fairness, trust, excellence and humility.

"Character, judgement and behaviour are connected stages in a process. Character or Integrity is the sum total of all our moral values and informs the behaviour of trusted adults. Good collective judgements and decisions are made when we consider not only legal rules and obligations (the "letter" of the law) but also how our values (the "spirit" of the law) help us to decide fair and reasonable outcomes for all stakeholders."

Steare, R (2010)
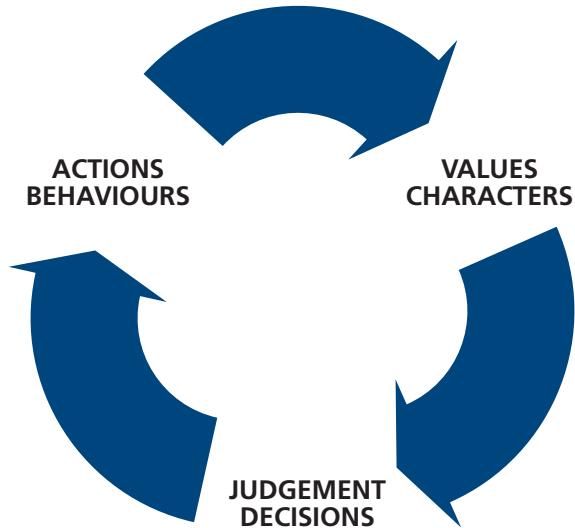
Figure 5.1 Character, Judgement and behaviour flow model

The above occurs at an individual, group and organisational level. The latter in all its complexity, and influenced by the tone set by the senior executives, makes up the culture of an organisation – something we know exists for sure, represented by artefacts, language, traditions etc, but is not always easy to identify, pin down and explain.

So there needs to be some investigative work done (possibly assisted by a third party, for the important reason that they will be free of the cultural bias which exists subliminally in all organisations). An example of this could be a risk and ethics culture assessment to diagnose how well attuned an organisation is to its values, the observance and practice of these, and the continuous monitoring of behaviours. The critical factor, through the role of what might be called risk or ethics ambassadors, is to have as many eyes and ears operating at all levels to pick up any nuances, queries, challenges etc. which may give clues to deeper issues.

A template for this type of forensic approach, carried out through structured interviews with a wide ranging cross section (not restricted to just senior executives) of an organisation, is set out opposite.

Risk and Ethics Culture Assessment (RECA): Setting the right standards to minimise risk, protect reputation and maximise sustainable profit

1. How well disciplined is your organisation to meet the emerging public and regulatory demand for demonstrating risk balanced and ethical decision making in the way you transact business with ALL your stakeholders in the global economy?

2. How clearly does your organisation articulate and communicate its values in order to guide risk balanced and ethical decision making at all levels? Where are the roadblocks to risk evaluation?

3. How well examined is your Values Statement to determine if these are based on true moral values like Courage, Self-Discipline, Fairness, Trust etc rather than desired outcomes (eg Reputation or Efficiency)?

4. How committed is your organisation to putting moral values and moral purpose, which affect ALL stakeholders, before just value for shareholders?

5. How strongly does your CEO (which might equally imply Chief Ethics Officer) champion a culture for balanced risk taking and decision making – A Culture of Enlightened Integrity?

6. How well emphasised in your Risk Register are RIGHT (see page 39) decision-making and effective measures to mitigate reputational risk caused by careless thinking? Is there a clear framework?

7. How open and properly supported at grass roots are your whistle blowing culture and speak-up processes, to encourage people at all levels to speak the truth?

8. Have you identified or appointed independent Risk and Ethics Ambassadors at all levels to advise on and monitor risk and ethical dilemmas and to report to appropriate line managers (HR/Legal/Risk if appropriate)?

9. How clearly articulated is your organisation's remuneration and reward structure to encourage and reward balanced risk taking and ethical decision making?

10. How firmly is your organisation opposed to individual gain and corporate excess in its relations with ALL its stakeholders?

If the following are challenging to agree with then it is valuable to have some crucial conversations around:

a. The dynamic relationships between short term profitability, ethical behaviour and risk.

b. Whether your moral values truly influence how you choose to operate.

c. Agreeing a sustainable moral and economic purpose which justifies your "licence to operate".

d. How to integrate balanced risk taking and ethical behaviour into your decision-making and execution to enhance sustainability.

e. How your KSIs (Key Strategic Imperatives) – over the next 5 -10 years - can be aligned to a balanced risk taking culture.

Moral DNA Profiling

The information collected from a Risk and Ethics Culture Assessment will be based on verbal feedback, anecdotal evidence and individual perceptions – useful but not precise.

In order to give additional credibility to this process it will be desirable to provide "hard" evidence about the actual values being displayed, their links to risk balanced decision making and the reported differences in how people (and by extension the organisations they work for) behave at work compared with their more "authentic" self in a home or social environment.

One such measuring tool is known as MORAL DNA Profiling (MDNA). More than 70,000 people from over 160 countries have participated in developing this validated psychometric instrument. MDNA measures the following:

Ten moral values (eg Courage, Prudence, Trust, Fairness, Honesty etc) which map to 3 Ethical Consciences which help significantly to determine our decision making.

- Ethic of Obedience (eg Rule Compliance, spirit of the law etc)
- Ethic of Care (Empathy, Concern, Respect etc)
- Ethic of Reason (Wisdom, Experience, Prudence etc)

Used across an organisation it is possible to assess the overall ethical biases.

Individually it can highlight the socio/psychopathic tendencies noted as being more prevalent in senior roles which can lead to poor or even disastrous decisions, since they are often ego based vs holistic.

This analysis can be refined to measure age, gender, geographies, divisions, teams etc to determine if different groups have different ethical stances. (See Figs 5.2 and 5.3).

Moral DNA Ethics by Age

Ethic of Obedience ■ Ethic of Care ■ Ethic of Reason ■
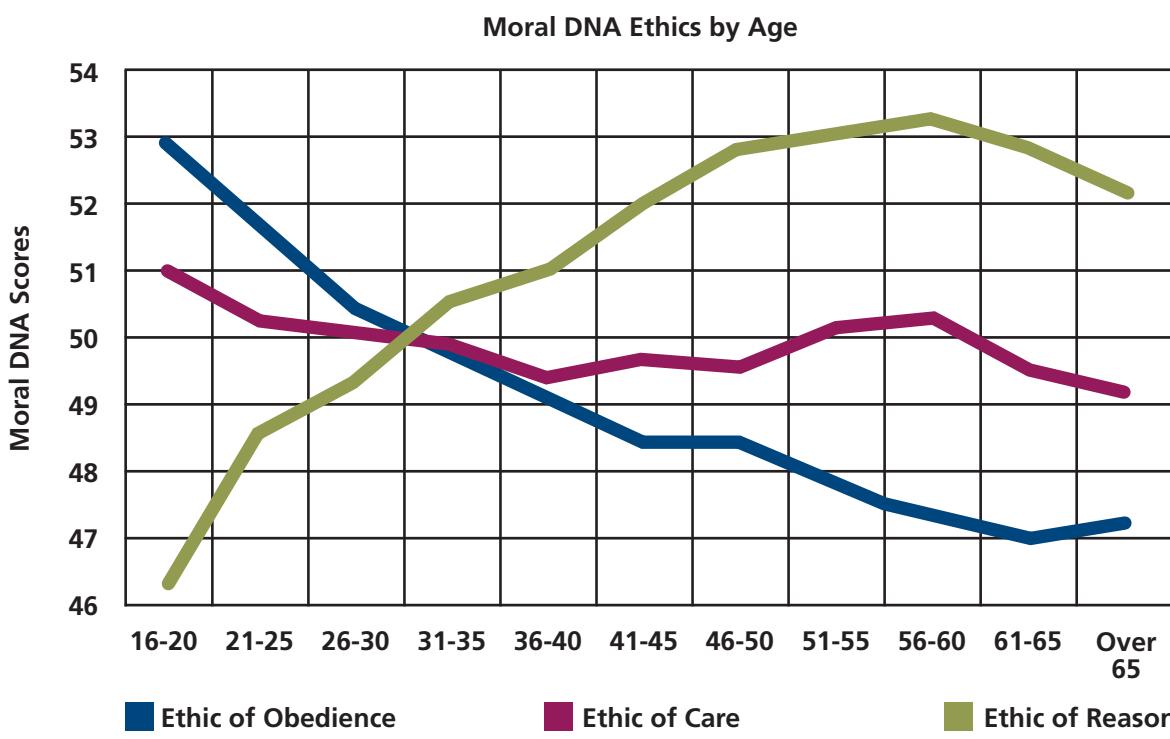
For example MDNA can pinpoint if some groups selected are more Rule Compliant than others or lower on Empathy/Respect.

• What would you extrapolate from these findings?

• What might it cause you to want to investigate?

• Is the combined effect of over-reliance on rules and suppressed empathic behaviour a recipe for behavioural risk?

In addition to the above, MDNA Profile Reports measure Ethical Conscience scores at home and at work (see Figure 5.3 below). Significant differences between the two environments are usually identified and again these diagnostics may trigger questions as to the meaning of these discrepancies and their possible impact on decision-making.

Feedback from this particular aspect of the MDNA among senior executives at two major international clients has indicated a fair degree of concern at the variations in reported behaviours. If people are not bringing their "authentic" self to the workplace how might this influence their attitude to risk taking? Are they less likely to challenge instructions as long as they can claim to operate within the rules?

Rules tell people mostly what they cannot do – less overtly do they tell people what they should do?

"The more rules, the more corrupt the State." Tacitus AD 50.

Moral DNA Ethics in Life at Work

Life ■ Work ■

Some practical signals of what a good risk culture looks like:

- Always challenging existing assumptions and forecasts – internally and externally
- Aware of the cognitive bias to accept information that confirms
- Cultivates cognitive dissonance to uncover information that disturbs
- Communicates all aspects of risk balanced and ethical decision making regularly and relentlessly!
- Continually refines all risk management processes
- Avoids leadership "kow-tow" and sloppy group think
- Develops a wide ranging cadre of internal Risk and Ethics Ambassadors with clear reporting lines to the board
- Appoints a Senior Non Executive Director to monitor all suspicious feedback
- Carries out external audits on risk and ethics culture every six months
- Encourages risk taking, knowing that sometimes it will go wrong and may cost money
- Has a continuous learning attitude

The international element of risk culture

What others say:

The perception of risk and uncertainty is very different across cultures. In some cultures, there is a very high level of uncertainty avoidance. In some Mediterranean and Arabic cultures [there is] a "strong sense of fatalism or destiny. No one wants to be the person bringing up the risk, which makes the communication of risks difficult."

Javier Gimeno, Professor of international risk and strategic management at Insead (Financial Times, June 6, 2012)

Lord Browne, then chief executive of BP, is reputed to have told his internal auditors that the philosophy for internal control was "we don't like surprises". In the UK managers allegedly took this to mean they should alert their superiors to any looming problems, whereas in the US some took Lord Browne's instructions to mean that nasty surprises were to be hidden.

We need to understand what governs culture in different countries:
-     Is it the law? (e.g. USA)
-     Is it relationships? (e.g. Asia Pacific and Arabian Gulf)
-     Is it logic? (e.g. Europe)

"Language always comes with a set of cultural baggage" Richard Anderson, Chair of IRM

Corporate hierarchies vary considerably so where you tend to find a flat structure in say a Dutch company the culture will be very different to a Japanese or Korean company. Deference in Asian culture may mean that bad news does not always get communicated or escalated quickly to senior management. Special attention needs to be paid to this phenomenon by organisations with significant operations in the East.

One way to deal with this in global organisations is to have a strong focus on Brand Value protection so that everyone can be aligned to behaviours which do not put this at risk.

Why culture and ethics matter for risk mitigation

Moral DNA Values by Leadership

Figure 5.4 Moral DNA Values by Leadership

So what does it take to do the RIGHT thing?

How to decide what is the RIGHT thing to do and then have the courage to do it! There are four simple questions to repeatedly ask yourself or to challenge others with:

I.   Are you doing the RIGHT thing?   (Are you 100% sure?)

II. Are you doing it in the RIGHT way? (How well risk managed and ethical are your operations?)

III. Are you doing it for the RIGHT reasons? (Can you justify your licence to operate?)

The answer to each of the above may well be a qualified YES!

Is this enough? Not necessarily, as most totalitarian regimes would claim they did this. Many city speculators/traders would buy into this philosophy at the end of a successful day regardless of what damage they may have caused. You can in fact justify most courses of action under the above formula but this might not be enough.

The fundamental question is therefore: is what you are doing based on the RIGHT (moral) values? The word RIGHT itself is a useful mnemonic – standing for

- R-ules – do we know and operate within them (letter and spirit)?
- I-ntegrity – Do we act out ALL ten moral values which could be held to make up Integrity?
- G-ood – Is our decision making intended to do Good – for whom?
- H-arm – Will our decision making cause unintentional harm - to whom?
- T-ruth and T-ransparency. Can we stand behind our decision with a clear heart?

So here is a straightforward values based decision making framework which can be used when faced with almost any risk or Ethics dilemma. It is a mixture of pragmatics, common sense, wisdom, compassion, trust and several other important values. Above all though it is based on a culture of decency and integrity.

Moral DNA Ethics by Gender
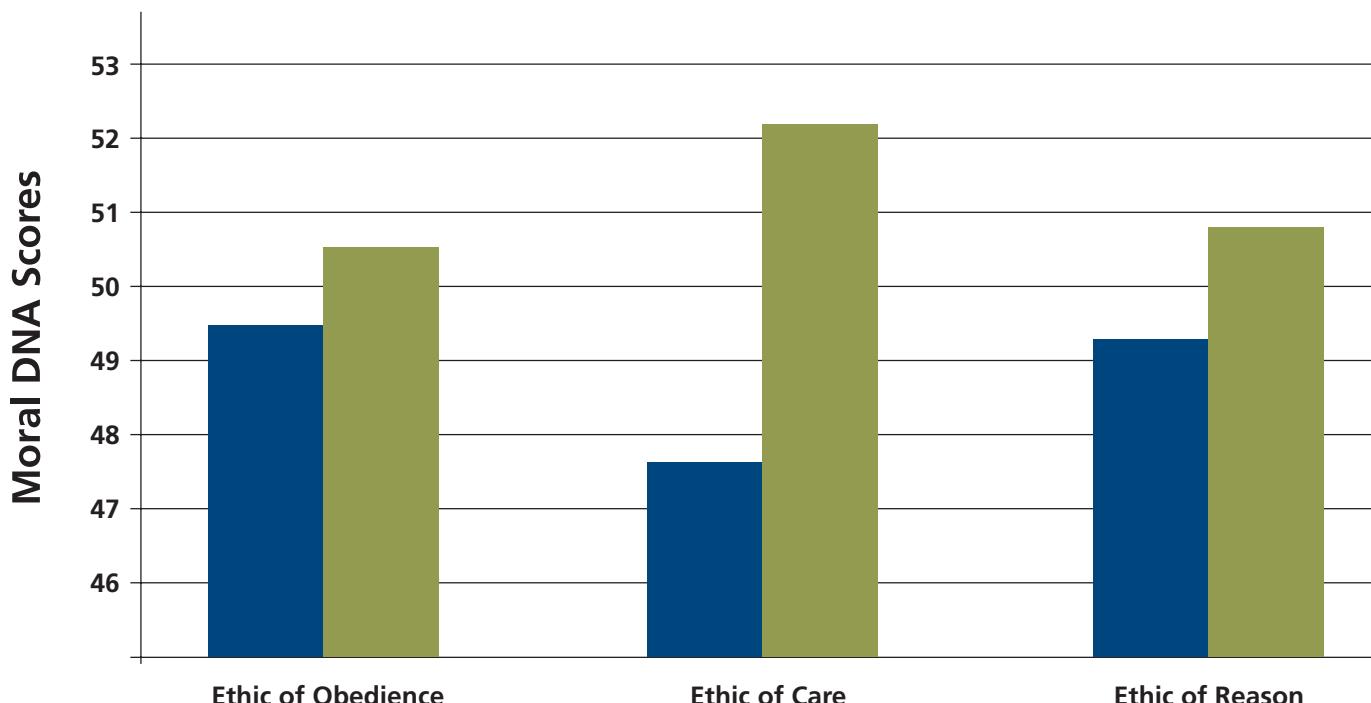
Figure 5.5 Moral DNA Ethics by Gender

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Chapter 6: Organisational Culture

Keith Smith, Kim Shirinyan and Colette Dark

Moving on from looking at the determinants of culture at an individual level, this chapter starts to take an organisational view of cultures and sub-cultures, how they vary internationally and what levers might be used to change a culture.

The Origin of Organisational Culture

While the idea that an organisation has a discernible and lasting 'culture' is readily accepted now, organisational culture is actually a relatively new concept. Edgar Schein (Schein, 1990) provides a history for the concept of organisational culture as emerging in the 1970's from the concepts of 'Norms and Climate' that had been popular management topics until then. The difference between an organisation's 'Norms and Climate' and its culture is considered to be an issue of depth and order, in that Norms and Climate are now considered consequences of an organisation's culture. However, much of the language from the early development of thinking in this field from the days of 'Norms and Climate' remains with us today.

The Language of Culture

As with many aspects of human behaviour, the study of organisational culture has given rise to a language that facilitates rational exchange about the issues and the concepts involved. Brown (Brown, 2006) may not have originated these terms, but brings us the clarity of interpretation we need to help unpack the key factors of organisational culture and its impact on risk.

Artefacts - the physical environment of a company including the physical layout of offices, the uniform of personnel, the style of annual reports etc.

Language and norms of behaviour - forms of operational jargon and the ways of addressing superiors, the dress code of employees, as well as how they arrive at or leave the workplace.

Heroes - this refers to a person or persons who had profound influence over the organisation and its aspirations. Usually there is an element of mythology surrounding their story which may not always be accurate.

Beliefs, Values, Attitudes and Ethical Codes - this defines acceptable and non acceptable individual or group behaviour and what is considered right or wrong activity. Basic assumptions or paradigms - these refer to the core values of the organisation shaped over a prolonged time period and usually accepted subconsciously in a 'taken for granted' manner.

Culture and Character

While an individual is said to have a particular character which dictates their actions when prompted by circumstance, the power of organisational culture is not owned by an individual. What this means is that the power of an organisations culture is an overlay on character, exercised and witnessed through the filtering and moderation effects it has on a set of individual members. This can usefully be seen as an organisation's culture providing amplification or attenuation of the individual characteristics naturally held by individual members. Recognising this difference between character and a culture that 'filters' the character of individuals, is fundamental to understanding why culture is important, how its power manifests

and its limitations. Moreover, this distinction means attempts to change the organisation's culture alone may not have the desired effect if the characteristics of the individuals who make up the organisation are not naturally given towards the type of behaviour that is desired. This is just one reason why cultural change often means a degree of population change, as current members, uncomfortable with the change in demands, decide it is time for them to leave and new characters must sometimes be introduced.

Anyone interested in reading more deeply into the role individuals play within an organisation should look at the work of Geert Hofstede who made a detailed study of IBM's employee base across 50 countries and in three distinct regions of the world. We are unable to do justice here to Hofstede's complete work, but suffice to say he made significant progress in understanding how culture plays out in a multicultural organisation and how training can play a big part in creating harmonisation across cultures.

Hidden Culture

In some organisations, the dynamics are such that more than a single culture may exist. Indeed, it is common to find subcultures and fractures, both of which are discussed later. A danger exists where the dynamics are such that one or more of the cultures is significant, but considered 'hidden'. Hidden cultures are not necessarily bad; they may simply be the result of a rich environment of subtle elements that are not easily identified as forming a culture. Hidden cultures therefore are simply where the elements of the culture are not readily available to the casual observer and deeper enquiry is necessary to surface them. The danger may be realised of course when cultural change actions are planned and taken without sufficient knowledge of the hidden cultures, as clearly the actions may deliver unexpected results.

Surprisingly, hidden cultures are not limited to individual organisations and within the medical sector for example, the concept of 'hidden curriculum' as a culture of higher expectation, communicated but not explicitly articulated, is well known. In a paper on extraordinary learning, Hafferty and Hefler (Hafferty and Hafler, 2011) suggest this problem of surfacing hidden cultures may be tackled by explicitly examining role models and the context of the workplace. In the medical environment for example, students are provided with extensive 'in the workplace' exposure where much of this learning through context and role model observation can take place. Examination of the context in which the students learn, including the pace and conduct of the processes used in the organisation, alongside the role model interpretation provided by trained professionals, allows the cultural observer to uncover this hidden culture. More importantly of course, this same mechanism also leads to increased proficiency in medical staff. Other organisations exploit the same mechanism to provide an extended introduction to culture, although to a lesser extent than in medicine: the training of priests for example where cultural training takes place over an extended period and where some sub elements of that culture may be hidden behind the overt culture that we associate with any form of priesthood. Equally, there are elements of hidden culture in apprenticeships, where the face value learning objective appears to be just the skill the apprentice would like to master, but actually the apprentice also learns about the culture associated with the trade.

Organisational Culture Manageable in Three Layers

Lundberg (Lundberg, 1990) describes organisational culture as a 'phenomenon of reality construction'. This rather academic phrase is useful as it reminds us that an organisation's culture is not a real object. The phrase also reminds us we are dealing with 'a model' useful only in its ability to infer further attitudes

and behaviours that may need to be understood. Such a 'model' therefore needs to be created, described and evidenced by a number of observable or experienced behaviours, attitudes and artefacts to be considered valid. In seeking such evidence, Lundberg found it useful to consider organisational culture on three levels for the purpose of understanding, diagnosis and management action. These levels remain a good way to disaggregate the substantial task of understanding an organisation's culture.

The **Manifest Level** is constructed from the symbolic artefacts, the language shared, the stories told, the ritualistic activities and the patterns of conduct that people who are part of a culture exhibit. In this respect, the Manifest Level is the easiest to determine, as it is rich in outward signs and observable evidence.

The **Strategic Level** on the other hand is less easy to determine and may even be elusive to some members of the culture, as it is concerned with Strategic Beliefs in where the organisation is or should be heading. The strategic level is best determined therefore by examining the vision, strategy and high level organisation objectives as owned and presented by senior management.

The third level is considered to be the **Core Level** and this is the level most often targeted by executive messaging keen to see fast cultural change take place as the Core Level is associated with depth. The Core level addresses the Ideologies, Values and the Assumptions that members of the culture may hold as important.

The tools and models introduced in earlier chapters, Cultural Theory, Risk Aspects and the Double S model, each provide an array of complementary views that produce quite a broad view of different elements of an organisation's culture. Cultural Theory for example is rich in exploring the boundary between the characters found in the population and the 'cultural filtering' that may be in place. The Risk Aspects model sets out the deliverables that any culture must provide for success in risk management and is therefore good for Gap Analysis. The Double S model and enquiry method provides substantive testing at both the Manifest and Core levels of a culture, which may also be informative and supportive of any Gap Analysis work.

In addition, separating the results of each analysis in terms of the three levels introduced above may help us to see at which level we have mismatch, weakness or opportunity to shape the culture towards better management of risk.

Strong Cultures

It is worth mentioning that it is not necessarily the strongest cultures that get the best results and under certain circumstances strong cultures can cause strategic nearsightedness in the organization, making it less sensitive to changes in its environment (Sinclair, 1993). This is an important point to remember in risk management, as many of the risks an organisation must manage rely on the organisation remaining sensitive to small and subtle changes in the external and competitive environments.

Other factors that may need to be considered when assessing an organisation's culture (see extensive works by Geert Hofstede) would traditionally be classed as the ratio of masculine to feminine cultural traits. Masculine cultures are (rightly or wrongly) considered to be characterised by competitiveness, assertiveness, materialism, ambition and power, whereas feminine cultures place more value on flexibility, relationships and quality of life. Western societies in particular have changed since this original classification system was devised and the historic masculine/feminine groupings may no longer be considered in the same way.

Sub Cultures and Fragmentation

Another consideration of corporate culture usually endemic to large corporations is the existence of subcultures. Sub cultures refer to values, attitudes, beliefs and basic assumptions of certain structural departments of companies or any profession. Certainly the widely innovative nature of marketing for example may cause the existence of a sub-culture that may be totally different from that found in finance for example, where conformity and compliance tends to dominate the work. This internal difference may be a source of mismatch of subcultures that deeply affects the organisation; an effect which is particularly acute when sub cultures articulate their legitimacy as an ethical discourse (Drake and Drake, 1988).

In contrast, a fragmented culture indicates that the organisation not only accepts the existence of different values and subgroups, but also of different groups to which one can belong. This co-existence of various sub-cultures makes it more likely that the organization will exhibit dynamism and there will be a certain capacity for dialogue and criticism within the organisation. It is worthwhile to point out that unless there are strong integrating elements within corporate culture, fragmentation can be quite damaging. Research work by the IRM has also shown that a fragmented culture is possibly the most difficult in which to embed the principles and practices of ERM.

Internationalising Culture

For many organisations, culture is a transnational issue and this can be considered as a particularly difficult area if the organisation has a strong brand and corporate culture to sustain. IKEA for example has an international presence, a strong brand image and a strong culture. Moreover, the IKEA business model, with its strength of brand and culture, has a long heritage that can be traced back to the foundations of the company in 1943. (Ekstrom and Nilsson, 2011)

In Sweden, where the heritage of the company remains well known, the simplicity, the informality, the equality among workers and the 'lead by example' of managers walking the floor, was readily accepted. Equally in France, the model was accepted without issue. In Germany however, which geographically is not that far from Sweden, the cultural distance started to show with the IKEA culture being considered by some as too flat and informal. (Salzer, 1994)

To maintain its brand and culture around the world, IKEA tapped into its own core values of equality, respect and a belief in training. IKEA used 'culture carriers' who were people dispatched directly from Sweden who had the role of adapting, communicating and training the new staff in the company's culture. This has been successful in regionalising and yet maintaining the essence of the IKEA culture around the world. However, it would be wrong to suggest the problem of cross border culture is trivial and all it needs is 'a little training' from envoys. This process of exporting the IKEA culture was not without difficulty in regions with a particularly strong hierarchy culture, for example in China where workers often still felt compelled to wait for direction from supervisors before acting. (Ekstrom and Nilsson, 2011)

The IKEA example demonstrates the overriding need to invest in connecting the culture to the people through honest representation, close contact and a degree of regionalisation in order to maintain key elements of required culture. No example of a wholly uniform worldwide culture has been found for this work and finding such an example was not expected.

In a paper on outsourcing, Kvedaraviciene (Kvedaraviciene and Boguslauskas, 2010) identifies some of the potential issues that need to be considered in any strategy for internationalising culture and these are regarded as equally important for internationalising risk culture as well. The list should not be considered as exhaustive, so much as illustrative and a starting place.

• Native language differences and interpretation of even the simplest translated words can of course be a source of cultural tension. In far eastern cultures for example, it is considered poor form to say 'no' to a superior and a simple request may be met with a 'yes' meaning 'best efforts will be applied', when the answer is assumed to mean 'it will be so'.

• As with the IKEA case, where the company desires informality in its stores, strict divisions within some societies mean informality such as using first names can be considered as impolite. Where an organisation may dictate to some degree internal informality, there may be issues when that model is extended to customers, who will make their own judgement, independent of organisational values.

• In a western culture, using one's initiative can be considered a praiseworthy trait, but in more hierarchal cultures obedience is more highly valued. This is not to say one culture is better than another as initiative is a double edged sword just as unswerving obedience can be.

• Freedom to speak out is increasingly valued in western cultures and in terms of corporate governance, the right to speak out is afforded protection. Again however, this is not the norm and even humour may be a risky strategy to employ when dealing with sensitive issues, where respect for the issues and sobriety may be expected.

• Less so than in the past, western cultures equate punctuality with politeness. Other cultures regard time as more flexible. In South America for example, it is not uncommon for meetings to start late, for agendas to run over time or for deadlines to be treated with less attention. This is not impoliteness, this is a cultural difference.

• Non explicit communication can also be important. In India how often a manager demands status reporting is taken as a sign of the importance of the piece of work required. In western cultures managers tend to require exception reporting and expect a subordinate to recognise the importance of a piece of work from other indicators.

Some of the issues illustrated above can be considered an East West divide as western cultures are considered to be more individualistic where Indian, Arabic or Asian cultures are more collective in terms of honour, reputation and tradition. In China, for example, there are at least 113 terms associated with the feeling of shame and to not have a well formed concept of shame in China is to put oneself so beyond moral reach it is said that 'even the devil will fear you'. (Li et al., 2004). This is something people from many western cultures would struggle to understand.

Cultural difference - some anecdotal evidence

The following are examples of real life situations given to us in which cultural differences have emerged in an organisational setting. They are provided to give a little insight into how cultural differences can give rise to poor risk management outcomes through misunderstandings, offence or simply a failure to create the right atmosphere for plans and proposals to be accepted. Stereotyping however should be avoided and these observations should be treated as a starting point for further exploration, rather than as assumptions.

Europe/Africa: making direct eye contact was considered rude and aggressive in an African training session, while in the West, good eye contact is taught as good trainer behaviour.

Africa: to get people to buy into the risk management plan, everyone had to have their say. Much of it was a repeat of what had already been said, but it was important that everyone was given time by the session leader to fully voice their thoughts for the plan to be accepted.

Africa/UK: aid workers, native to the country, would assess the level of risk to their own safety and security to be low, whilst head office risk managers considered it to be very high. The underlying experiences and expectations of the two groups were so diverse it was hard to come to a shared and agreed perspective on this risk.

Europe/Far East: a western organisation branching out wanted a culture where every employee took their own initiative to do the right thing for the customers. New employees in a Far Eastern branch however found this very uncomfortable - they wanted their supervisor to give them clear instructions as they expected a robust hierarchy to be in place.

Europe/China: a Chinese customer service representative could not answer a question posed over the phone from a European customer. Embarrassment was inadvertently caused, although not intended and the call was terminated by the customer service representative without warning.

Middle East/Europe: in a serious conversation, a European lifted their foot across their knee and inadvertently presented the sole of their shoe to a Middle Eastern colleague without thinking anything of it. Offence was immediately taken to this insult.

USA/ South America: a US business communication was not well received and led to a degree of ambiguity. It had the facts and the details, indeed it was to the point (in respect of its content). The problem was the communication had no relationship information, no timing expectation and lacked social appropriateness (context).

Additional help in navigating through international culture issues may be gained from research into cross culture in projects (Mueller et al., 2009) . This work gave rise to three areas of classification that may be of use to any organisation looking at the international implications of risk culture:

• General cultural differences in terms of team orientation, hierarchy, mind set and work attitudes

• Decision making style differences, speed, team contributions, responsibility and ownership

• Decision making process differences. Transparency, formality and applied expertise

External to the project team, we might also usefully extend this classification to include:

• Customer and client perceptions to address how an organisation's customer base may perceive the overt artefacts, values and expression of the organisation's culture

• Partnering issues and the power balance in terms of both business partners and supply issues

Responses to the issues considered may then be considered in terms of:

• Presentation of cultural values

• Regionalisation in terms of what may need to vary and what conformity can be expected

• Training and coaching of staff

• The use of artefacts to communicate, represent and sustain the organisation's culture (for example IKEA made substantial use of the founder's book)

The Cultural Impact on Risk

Whether as a single unified organisational culture, a fragmented set of competing sub cultures or as a strong culture that imprints itself heavily on the perception the organisation has of the external environment, culture will have an impact on the management of risk.

Through the research work carried out by the Institute of Risk Management using the Risk Aspects model, we have been able to verify the importance of several key dimensions to risk culture and these are explored more fully in other chapters.

In an alternative research view of culture, based on the Goffee and Jones Double S model (Goffee and Jones, 1998), the research carried out by the Institute of Risk Management has shown that both the Sociability (Social cohesion and interaction) and the Solidarity (Task orientation) dimensions are equally important. Activities such as embedding of practice benefitted from Sociability skills and task orientated activities such as delivering on mitigation, unsurprisingly, depend on a culture of Solidarity. Again, these dimensions and how they may be developed are covered in other chapters in this work.

The Ethics and Challenge of Cultural Change

Edgar Schein (Schein, 2009) said that an organisation's culture is:

".. a pattern of shared tacit assumptions that the organisation learned as it solved its problems of external adaption and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems"

Schein's summary makes clear the scale of the task one sets out to address in making any sort of cultural change within an organisational setting. Yet having discerned the organisational culture, the question becomes what can be done to address the risk management weaknesses? Again, the answer is found in Schein's summary in terms of validity. If it can be seen that the problems of adaption and internal integration have changed, such that the validity of the current culture may no longer hold, then the culture of the organisation will begin to shift to a new status quo.

However, care should be exercised when management chooses wilfully to drive the development of culture. Culture shaped under the dominant influence of management may be a sign of "managerialism" (Parker, 2002) or even an obstacle to liberal democracy (Johnson, 2006). One expression of such an undesirable approach has been presented by Starratt (Starratt, 2003):

… culture inescapably reflects relationships of power: not only the power of wealth and control …but [also] the power of defining what things mean in the culture, what is considered natural, normal, acceptable and what is considered deviant, unnatural, and unacceptable. Frequently those powers coalesce into powers of domination, and when such power comes to be accepted by those in power as the natural order of things, their responsibility for the oppression of others becomes invisible to them.

This warning provides us with a good introduction to another topic rightly and widely discussed elsewhere in this document; the issue of ethics. Each of the major failures highlighted in the case studies contained in this work, or in other cases exposed to public scrutiny, have had some measure of ethical dimension. Within this chapter, we will limit our points to the organisational approach as the subject of ethics is dealt with more fully in other chapters.

Two approaches have been proposed aimed at shaping organizational culture towards ethical ends; the first and arguably mostly accepted is the approach of creating a unitary corporate culture around ethical values unifying the whole organization. The second advocates co-existence and diversity within the organization based on different grounds of self-identity such as profession, geography, occupation etc.

Each approach defines organisational culture and what is considered acceptable and ethical differently; each also provides a different role for management in moulding the corporate ethical values.

Having considered both the challenges of organisational culture and having acknowledged the ethics, there is a practical need to understand the levers of change that an organisation's management can use. Clearly, from the perspective of risk culture the aim is to move an organisation's culture to one that better supports risk management. Young (Young, 2000) offers what he calls 'Six Organisational Levers' through which cultural change may be effected.

Motivation: alignment of rewards in the organisation's interests

Conflict Management: to address the many kinds of conflict that can arise among responsible centres

Management Control: budgeting, management and reporting requirements

Customer/Client Management: where an organisation can manage clients in accordance with its strategy

Strategy Formulation: where management can exert top down influences to the culture through strategic choice decisions

Authority and Influence: where both formal and informal sources of power exert control over an organisation and thereby affect its culture

Based on Young. D. W. (2000). The six levers for managing organizational culture. Business Horizons, 43(5), 19-28.

In his paper, Young puts the Schein view of culture, in the form of artefacts, shared values and basic assumptions, at the centre, clearly indicating that these will gradually change in response to aligned

changes in each of the 'Lever' areas. The message here is quite clear, particularly when considered in the context of culture at three levels. A culture cannot be rewritten simply by mandating that the values and ideology of an organisation have changed. Nor is it wise to simply try to promote one set of stories, artefacts or assumptions over any other set. These are the indicators, the outputs of culture and cultural change must be effected through a wide range of consistent managerial actions.

This document cannot be prescriptive in the use of each of the levers identified, other than to say that the deliverables identified in the Risk Culture Aspects Model, together with establishing a 'communal culture', should be the objective, if risk management is to flourish as a process in an organisational setting.

When applying the model of levers in an international context, irrespective of where the originating organisation is from, or the national culture that is being addressed, consideration must be given to the suitability of the culture for export. The IKEA example above illustrates that cultures are transferable, but not without regionalisation.

Precision in Cultural Change

Much of this work on risk culture is aimed at those who wish to engage in cultural change and indeed it is quite possible to bring about positive cultural change to aid the management of risk in an organisation. The obvious question to be addressed however is one of precision.

As the culture of an organisation changes, or indeed to bring about a desired change, there is quite often an associated change of people employed by the organisation. This change in people is on top of behaviour changes in those who may remain with the organisation, who will be influenced by the changing culture. A new mix of people and a shift in observed behaviours will in turn have its own influence on the culture of the organisation. This shift of culture may be in directions that are hard to anticipate when the original culture was assessed, it is therefore important to recognise that culture change is not a precise art and regular reappraisal is essential.

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Chapter 7: The organisation – understanding culture cycles

Mike Vernon and Gill Avery

This chapter looks at the concept of culture cycles – how the existence of a particular culture within an organisation can in itself make it difficult to achieve sustained cultural change. It sets out a model that we have found useful and which the originators have been willing to share with us although other ways of looking at the issue are no doubt available.

The Origin of Organisational Culture

What are culture cycles and why are they important to managing risk?

Experience has demonstrated that ignoring what we will call "Latent Culture Risk" can lead to underperforming business, crisis events and the sub-optimal performance of change initiatives, including those associated with enterprise risk management. Identifying culture issues as part of a change initiative facilitates the achievement of sustainable enterprise objectives, enables latent culture risk to be exposed, and choices made about mitigation.

This chapter introduces four powerful tools which support sustainable change and enable healthy cultures to develop:

- culture cycles
- the "Four Step Cycle for Sustainable Change"
- the Enterprise Risk Management Evaluation^SM (ERME^SM) tool
- Culture Cycle Modelling^SM (CCM^SM).

The Three Fundamental Cycles

To understand sustainable change we need to isolate three fundamental aspects of enterprise and their linkages. These are called the Professional/Technical Cycle, the Managerial Cycle, and the Culture Cycle - three interdependent and interlocked aspects of the enterprise. The way they interact affects decision-making, information flows, implementation cycle times and sustainability.

Professional/Technical Cycle - this is informed by the experience, education, life opportunities and membership of a professional body, coded into a cycle of consideration that when linked to strategic choice and the business model that best expresses it leads to the…

Managerial Cycle - this is the way that the business model is put into practice to monetise strategic choice. The end-to-end business model created can be optimised, improved, and subjected to lean disciplines as an act of ongoing design for performance. The managerial cycle is heavily dependent on the underpinning…

Culture Cycle - with its roots in the start-up phase of any enterprise, the culture is distinctive and can often be traced back to the leadership style of the pioneer who began it. Sometimes this can be traced back 100 years or more. Culture is socially constructed, legitimised, maintained, or changed by people who inherit 'the way we do things round here'. The behaviour that expresses a particular culture can either support or hinder the managerial process (including ERM). This is turn can deflect the intent into a culturally accepted 'cost of failure' buried in the culture as Latent Culture Risk.

Often the root cause of difficulties can be traced to a legacy culture cycle; the unspoken 'way of working round here'. When people join an enterprise, they usually behave (at some level) to attract approval. People therefore acquire a habit of mind and attitude that gains them approval and position. These behaviours are handed down and reinforce the very culture that may need to change.

The ultimate paradox is that if we use culturally approved methods to seek to change culture, all that happens is that we reinforce the very thing that we are trying to change.

Enterprise Risk Maturity Evaluation ^SM (ERME ^SM)

The three cycles set out above are the starting point for developing an Enterprise Risk Maturity Evaluation ^SM that brings together Professional/Technical, Managerial and Culture Cycle perspectives and offers an evaluation tool that indicates whether or not change requires a shift in the enterprise's Culture Cycle in order to be sustained. To summarise the three cycles underpinning ERME thinking;

Professional Cycle	Looks at the enterprise as an economy.
	Risk focus - commercial, reputation and innovation.
	Functions - governance, legal/safety, finance, enterprise design, guardians of Target Operating Model, Business Operating Model and Risk Operating Model.
Managerial Cycle	Looks at the enterprise as an industrial system.
	Risk focus - quality, cost and compliance.
	Functions - marketing and sales, investment, R&D, HR, production, accounting, process improvement, and planning.
Culture Cycle	Looks at the enterprise as a social system.
	Risk focus - capability, collaboration and control.
	Functions - create a sense of belonging, a sense of place and purpose, legitimise/sanction and support behaviour, absorb threat, and contain anxiety.

Latent Culture Risk – the elephant in the room

In a world of increasing complexity and shortening timescales for achievement, the volatility produced by people seeking to balance commercial matters in their favour highlights some interesting dimensions of risk. Risk arising from the markets and environments we trade in is also a source of enterprise opportunity. However paradoxically, the means by which an enterprise seeks to address external risks often fails to understand the risk created by well-intentioned boards and individuals, who create risk through the very way they deal with risk.

Even the way an enterprise defines risk is rooted in the Culture Cycle of an enterprise. This cycle is often the source of "enterprise pollution" (Latent Culture Risk), ultimately leading to risk events, some of which can have significant impact on reputation and business performance.

It is common to investigate near miss and risk events, and link them to operational risk. This approach however often fails to examine the Culture Cycle as part of the root cause of any risk event. This invariably leads to short-term fixes, which leaves deeper Latent Culture Risk untouched.

To help illustrate this, ask yourself two questions: Tick box if yes

1) Do you have a risk management system that you participate in?   ☐

2) Are you aware of the risk created by the way in which you manage risk?   ☐

Now ask yourself two more questions:

1) Do you have a clear link between your risk management system, and the way it is
used to increase profitability?   ☐

2) Do you encourage yourselves and your people to raise and challenge risk-producing
behaviour in order to drive your change agenda?   ☐

The vast majority of people surveyed happily tick box 1) on both sets of questions but struggle to answer box 2). This discrepancy shows an astonishing lack of future thinking once the immediate benefits of action have produced the desired reward. It only needs a cursory glance at the coverage of recent events to find:

- invasions of countries without a clear follow up plan

- safety issues dealt with a tick box approach leading to multi-million dollar law suits

- wilful blindness to a reputational time bomb leading to closure of a media institution and a massive loss of jobs

- coverage of widespread illegality treated "as if" it is a joke

- off balance sheet manipulation giving a false picture of profit figures leading to systematic collapse of confidence

- institutionalised "misunderstanding"

- rogue traders

- interest rate manipulation.

These are all examples of Latent Culture Risk eventually surfacing to undermine organisations. No governance system alone appears able to counter the long-term consequences of these extraordinary effects of human selective perception. This self-interest is typically legitimised and reinforced by ownership and the authority of position.

Corporate disinclination to be aware of the Latent Culture Risk produced by short-term decisions, accompanied by behaviour that inhibits a full evaluation of risk, is itself risky. In many ways, the Professional Cycle creates and legitimizes a risk function whose role is to protect management from the legal impact of activities going wrong. Failure to address the second question above encourages a compliance perspective to managing risk where difficult issues become undiscussable. This undiscussability colours an enterprise with an indelible culture imprint. This imprint is a Culture Cycle.

We must recognise - we are only human

As human beings, none of us is free from selective perception, assumptions, bias, self-delusion, temptation and self-interest. Mostly these characteristics arise as part of unconscious neurological and neuro-chemical processes designed to maintain our comfort zones. This is often at the expense of rationality and rooted in memories long ago consigned to the sub-conscious.

This drives the rising difference between what we know and what we think; what we say and what we do. The difficulty is, the more senior people become, the more others experience the mixed

messages associated with discrepancies between what is said and what is done as confusing. Ultimately this can become anxiety-producing or de-motivating.

A subordinate or conflict-averse colleague usually backs off from the debate that ought to take place, particularly if an emotional reaction is produced. Generally we judge ourselves by our motives and others by their behaviour. So in our interactions with others, we are made to choose between either seeking to control the behaviour of others, or entering a dialogue about motives, supporting the development of behavioural repertoire. In other words, we can seek to be in control, or use every opportunity to continuously improve capability and reduce latent risk by surfacing issues to "discussability". Whichever choice we make, there is an impact on the culture and the 'emotional memory' of the people involved.

All interactions leave an "emotional memory". This emotional memory disposes us to behave in culturally acceptable ways, to avoid occasions where we experience negative emotional impact – the enterprise comfort zone. The culture that we reinforce contains our anxiety and gives permission for some behaviours at the expense of others.

When leadership changes, or someone who sees the need for change acts to produce it, they release the anxiety contained in the Culture Cycle and comfort zones of individuals and the enterprise. Indeed leaders may become blamed for the feelings of anxiety released and become perceived as the "threat" thereby displacing attention away from the market or commercial threat/opportunity and onto personalities. This creates a politicized organisation with power struggles becoming the work in hand. Under these conditions, subordinates cover up or sanitise issues that may produce conflict, or fuel those issues that will help them win. This pollutes our enterprises with long term cost of failure surfacing as latent and enterprise risk.

Let's just consider three timescales at work here.

Emotional reaction - plays out over 5 seconds but creates an emotional memory lasting 15 years ("long after I had forgotten what you said and did, I remembered how you made me feel").

Management action - depending on the project and its goals, from 5 minutes to 5 years (or longer in large projects).

Culture Change - begins now, and is a continuous endeavour. Emotional reactions are strong psychological responses to a given situation. Recognising the challenge does not overcome the difficulty of turning these 'automated' reactions towards productive enquiry. Our neuro-chemistry seeks to restore familiar balance. People are trained to acquire professional knowledge and legitimacy to advocate their position. Rarely are people able to master their personal development to the point of making more conscious choices about how to shape their organisation's culture.

The Four Step Cycle for Sustainable Change

The way in which change is implemented is critical to a successful outcome. To paraphrase Karl Marx, "enterprise contains within itself the seeds of its own regeneration", however obscured by management and the prevailing culture. Any attempt at creating sustainable change requires latent culture risk to be surfaced and understood. The prevailing culture needs to be reviewed and analysed as part of any change. Here the Four Step Cycle for Sustainable Change is set out including use of the ERME ^{SM} evaluation tool previously described.

2. Evaluate Professional, Managerial and Culture Cycle processes to calculate ERME score

1. Evaluate the gap between said and done risk policy

3. Specify goals and metrics that test value creation and that close the gap between said and done

4. Design implementation to transform Culture Cycle capability to support Professional and Managerial cycles
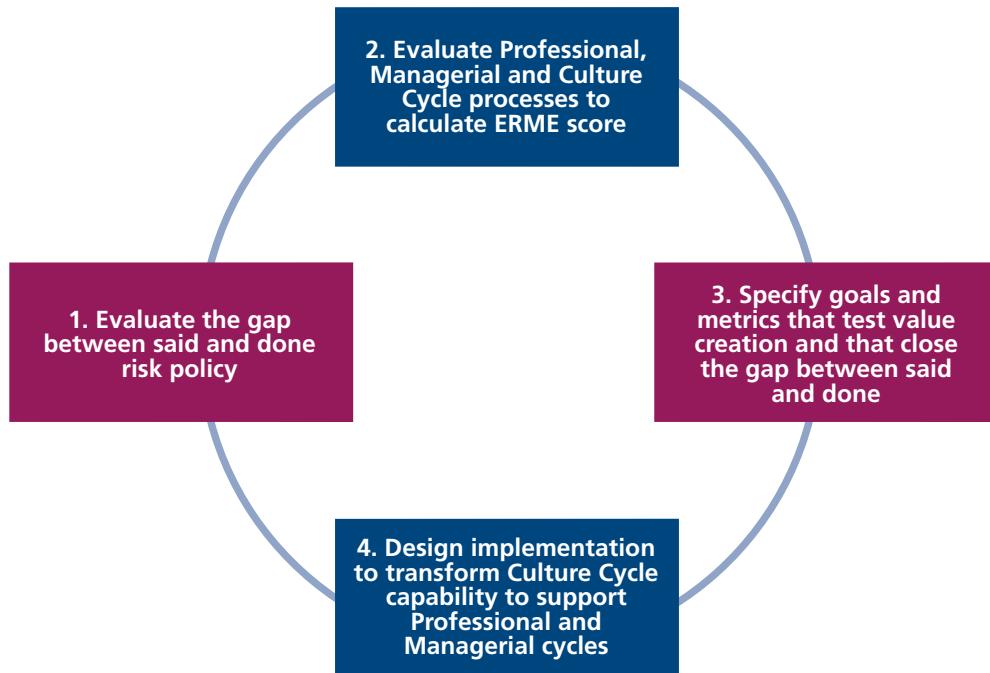
Figure 7.1 Summary of the Four-Step Cycle for Sustainable Change

Step 1 Evaluate the gap between what is 'said' and 'done'

Three aspects of a 'done' risk policy are:

1. Compliance, protecting the personal liability of senior management and keeping the regulator 'off our back'
2. Creating a shareholder premium by anticipating the opportunity of risk within our chosen market mindful of systemic opportunity
3. Optimising value for our client or customer by actively changing their risk experience with our products and services.

All the above aspects of risk policy are necessary and valid in their own right. However the emphasis placed on each aspect, (i.e. the levels of expenditure of time and resource spent on each) tells us about the nature of our culture, our latent culture risk, and therefore our enterprise potential for sustainable change versus a potential crisis or risk event.

There is a need to be vigilant and understand the difference between the published message and the day-to-day practice of our people. A consequence of taking the step of aligning message and practice is that our people feel the integrity of our leadership. They may feel that our commitment to our risk philosophy is active operationally and shared by peers and their management hierarchy. The cultural link between strategic intent and day-to-day operations is thus made clear, reducing the gap between 'what is said' and 'what is done'. Speaking frankly about what managers actually believe needs rehearsal with colleagues and is more difficult than saying what is culturally acceptable.

Step 2 Evaluate your enterprise risk maturity

Consider the relevance of your score to your personal, commercial, environmental and societal goals.

Enterprise Risk Maturity Evaluation^{SM}

	Cultural	Managerial	Professional
Optimise (Score three)	Systemically aware value creating collaboration	Continuous optimising to create sustainable value	Target business model designed to create value
Improve (Score two)	Clear defined process and improvement strategy, effective team work	Continuous process improvment to de-risk delivery	Sales forces "push" product service into the market
Standardise (Score one)	Command and control maintains hierarchy and status	Maintain staus quo, standardise	Control by squeezing budgets
Degenerate (Score zero)	Public and private statements at variance	Degenerate, politicised with in-fighting that fragments process	Serve my own interests and move on
(ERME =	**Cultural** X	**Managerial** X	**Professional)**

Figure 7.2 Enterprise Risk Maturity Evaluation^{SM}

So how to calculate your Enterprise Risk Maturity Evaluation (ERME^{SM}) score? It requires real honesty about the situation you are in. People need to guard against the competitor within who will want the highest score. So be a realist, and select those elements of the ERME^{SM} which best describe the current state you experience as your culture, managerial process and professional capability.

For example,

Cultural	**Managerial**	**Professional**
Command and control maintains hierarchy and status	Degenerate, politicised with in-fighting that fragments process	Sales forces "push" product service into the market

ERME =   1   X   0   X   2   = 0

Figure 7.3

If the above are selected, your ERME^{SM} score is 1 x 0 x 2 = 0. The maximum score is 3 x 3 x 3 = 27, and any hint of 'cultural degeneracy' guarantees a zero score. A zero score suggests that the enterprise will experience a crisis at some point unless action is taken to sustainably change the Culture Cycle, regardless of employing the best people at a professional/technical or managerial level.

This sends a very strong signal. When leaders tacitly endorse 'cultural degeneracy', most people back away from challenge and bury conflict. Alternatively they resort to compliance or a technical debate that itself reinforces the very situation that must change. In the extreme, where 'cultural degeneracy' persists, people leave to protect their personal reputations; very few become whistle blowers.

Step 3   Identify the nature of your ERM journey

Your ERME^{SM} score, set alongside your aspirations, will indicate the nature of your journey to create sustainable change. Once your vision is formed, specify goals and associated metrics that both test for client value creation and raise your ERME^{SM} score as you implement.

Evidence shows that most change projects are sub-optimal with as many as 70% alleged to fail to achieve their business objectives. The root cause is seeking to implement change using the very cultural methods that created the issues faced. Repeating these old patterns, and omitting goals and measures that address a shift of culture (reflected in the ERME^{SM} score), amounts to an enterprise blind spot that conceals latent culture risk.

Underpinning each dimension of the ERME^{SM}, will be a pattern of 'saying' and 'doing', unique to each enterprise. This pattern can be described using Culture Cycle Modeling^{SM} (CCM^{SM}). Modeling a Culture Cycle is a powerful way of:

- surfacing aspects of latent culture risk
- creating a map for designing the implementation of strategy in ways that integrate professional opinion, managerial action and transform the Culture Cycle to mitigate latent risk.

Apply CCM^{SM} to a Culture Cycle

Furthermore, our CCM^{SM} approach enables us to evaluate how any initiative will be implemented using status quo and alternative methods. Transformation of the Culture Cycle as part of the strategically relevant design for change, leads to stable processes that support results. Taking data from a recently reported event and modelling this into a Culture Cycle allows us to explore scenarios and their latent culture risk as outlined below:

- What would happen if a major change in the market disrupted our traditional business model?
- If the senior manager responsible for the Culture Cycle were taken outside their comfort zone, what could be predicted about how they would act?
- In order to achieve our target business model, can sustainable change be created if this Culture Cycle is used to implement?

And finally:

- given this Culture Cycle, what do we predict will be the cycle time of any change we wish to make, and will this leave us vulnerable to competition and shareholder objection?

Figure 7.4 Culture cycle example

The message here is that sustainable change can only be achieved where there is awareness of the latent culture risk embedded in the prevailing culture. The Culture Cycle designed to support implementation of change needs to be the very Culture Cycle which is also needed to support decision making, information flows, managerial method and systems that result from, and sustain, the change itself.

Where leaders have recognised the need to change their Culture Cycle in order to address latent culture risk and support their business model, this understanding has led to:

- management collaborating in the design and operation of process pathways, and
- strategy becoming a way of feeding the enterprise the professional input needed to create value for all stakeholders.

These are the keys to sustainable change; stepping past the cultural contagion to design change to alter the culture and hence support the business model. When leaders do this, they step past their own comfort zone to make it safe for others to follow and learn their way into change.

Step 4 Design implementation

Using the current Culture Cycle to implement change simply reinforces the status quo culture. Lip service gets paid to change and managers begin to use command and control methods to achieve their agendas. Stressed and coerced people are not good learners, particularly if they are not committed to the enterprise direction of travel.

The Culture Cycle illustrated in Step 3 has an ERME^{SM} score of zero. The Culture Cycle predicts that no matter how superior the professional contribution, and delivery mechanism, the nature of the long-term sustainable change is deteriorating performance.

Creating sustainable change requires a combination of Professional/Technical, Managerial and Social System (culture change) skills. Ideally a project methodology approach to change incorporates all three and iterates around the following stages:

1. **Discovery** - linking strategic objectives to day to day performance and calculating our ERME^{SM} score; surfacing the current culture using Culture Cycle Modelling^{SM}
2. **Investigation**, focus and design of the pilot(s) to address professional, managerial and culture change
3. **Test** the process (pilot) against value metrics
4. **Evaluate** results and generate business case when outputs and processes are stable.

Critical to success are team-working skills that enable participants to support each other in driving through the change. Inevitably those involved need to take responsibility for their own development and the development of their teams. Root cause analysis requires a review of issues in a way that some find uncomfortable, particularly when it comes to culture and personal behaviour. Teamwork needs to be mutually supportive to create a psychologically safe environment for good enquiry and surfacing uncomfortable issues. In this way the team becomes a micro-culture, a seed group that propagates change into the enterprise.

Once this data is generated and understood, design of the change implementation can follow through the stages identified below.

5. **Authorisation** of business case (usually at board level)
6. **Commence** roll out
7. **Continuously** refine process to converge on required outcomes
8. **Migrate** to the new Business As Usual
9. **Operate** an agreed continuous improvement and optimising process that includes the professional and managerial components of culture.

Flexibility is required to recognise how to adapt the implementation of change to changing circumstances. Nurturing, sustainable and productive change requires patience and focus, sometimes at odds with managerial urgency.

An example of putting ERME^SM into practice

Each enterprise has its own distinctive culture signature; whilst being uniquely populated by certain professional tribes they represent variations on a common theme. The Culture Cycle below was generated through Culture Cycle Modeling ^SM.

Figure 7.5 Culture cycle example

The Culture Cycle method can be used very effectively to generate scenarios. Given that this organisation's ERME^SM score is zero, what can be predicted about what would happen to any new mandate introduced into the team that creates this cycle? Given that the challenge is to design sustainable change as a means of increasing value, it is clear that the Culture Cycle must be evaluated and redesigned. Furthermore, putting the above cycle in context as follows:
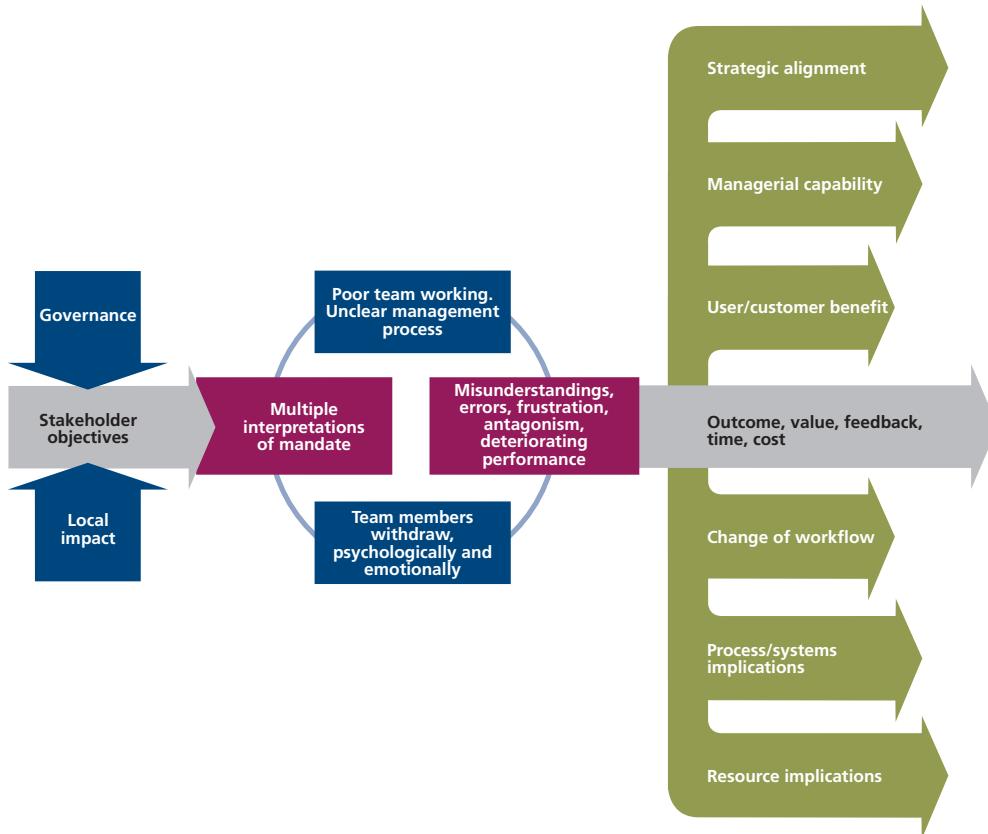
Figure 7.6 Culture cycle in context

The anticipated outcomes would therefore be:

- Unclear end game
- No agreed managerial process to achieve the end game
- Poor metrics
- Reward and recognition designed to maintain existing tribes at the expense of performance
- Mixed messages
- Cost of failure buried in budgets
- Overall ERME[SM] score of zero

This team was fortunate to be led by a visionary leader who laid down the challenge to each person to evaluate their contribution to driving enterprise performance. In a supportive environment the team developed a new Culture Cycle below:
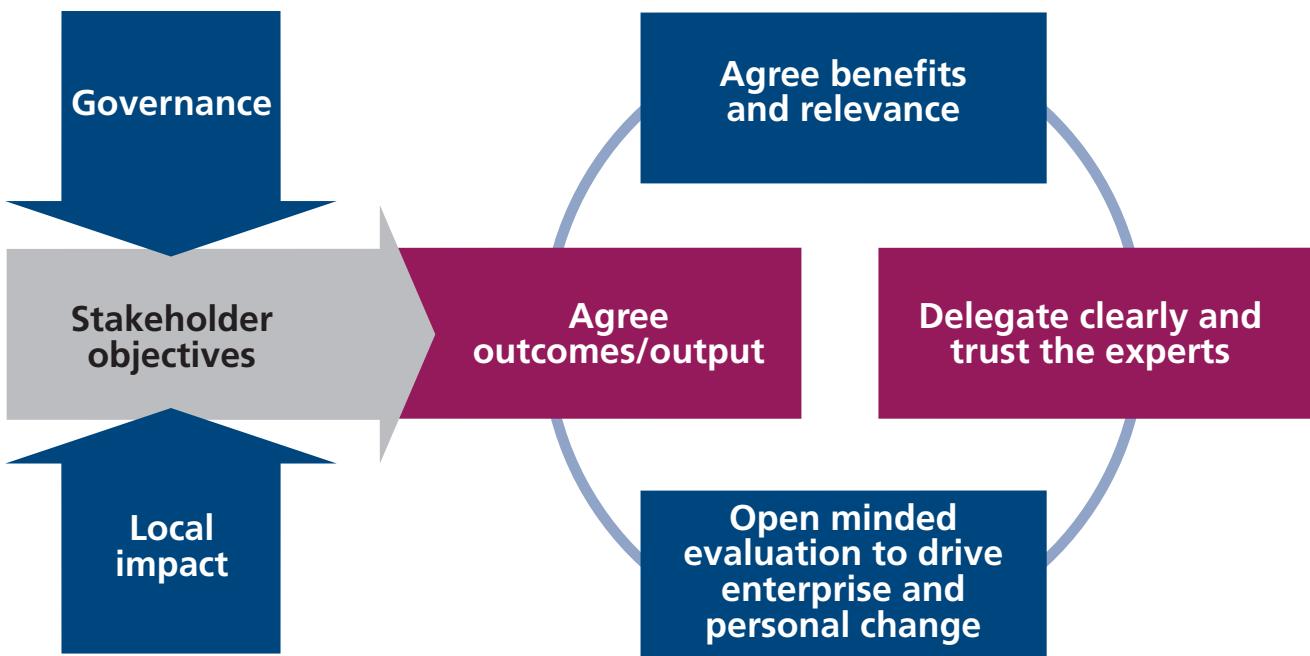
Figure 7.7 Alternative culture cycle

From this Cycle and its inputs, process pathways could be constructed across a range of activities (i.e. strategic, project management, operational change, bid management) until the target-operating model was transformed.

Process pathways

Reducing cycle times; de-risking delivery
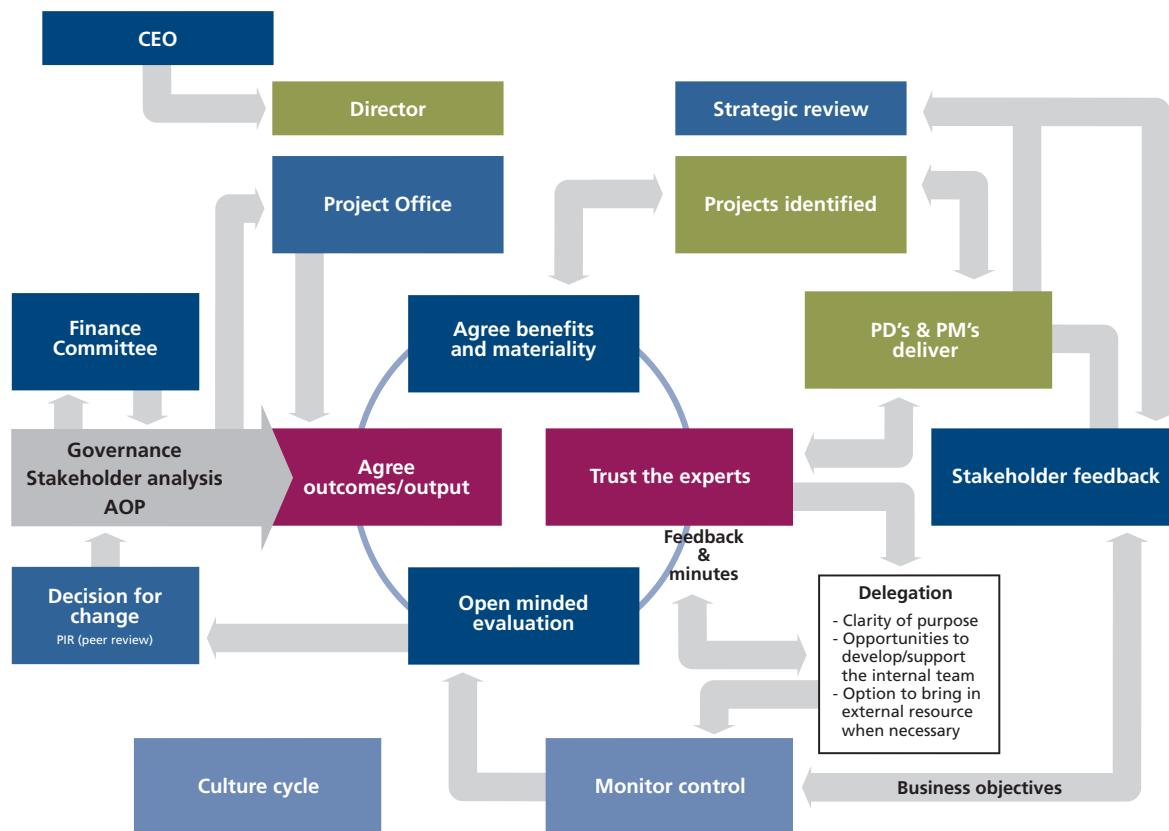
Figure 7.8

The Culture Cycle allowed the creation of a coherent Target Operating Model. This linked the Business Operating Model and the Risk Operating Model in order to support continuous sustainable change driving delivery of agreed outcomes. This was demonstrated by an increase in the ERME^{SM} score to 12.

Conclusion

The Four Step Cycle for Sustainable Change provides a powerful and proven tool for enabling positive Culture Cycles to be created, and Latent Culture Risk to be identified and eliminated. The Culture Cycles we choose to construct around us will either enable or obstruct delivery of our objectives. Latent Culture Risk is created where such choices are "undiscussable", and as a result, risks are buried deep in the cultural fabric of an enterprise.

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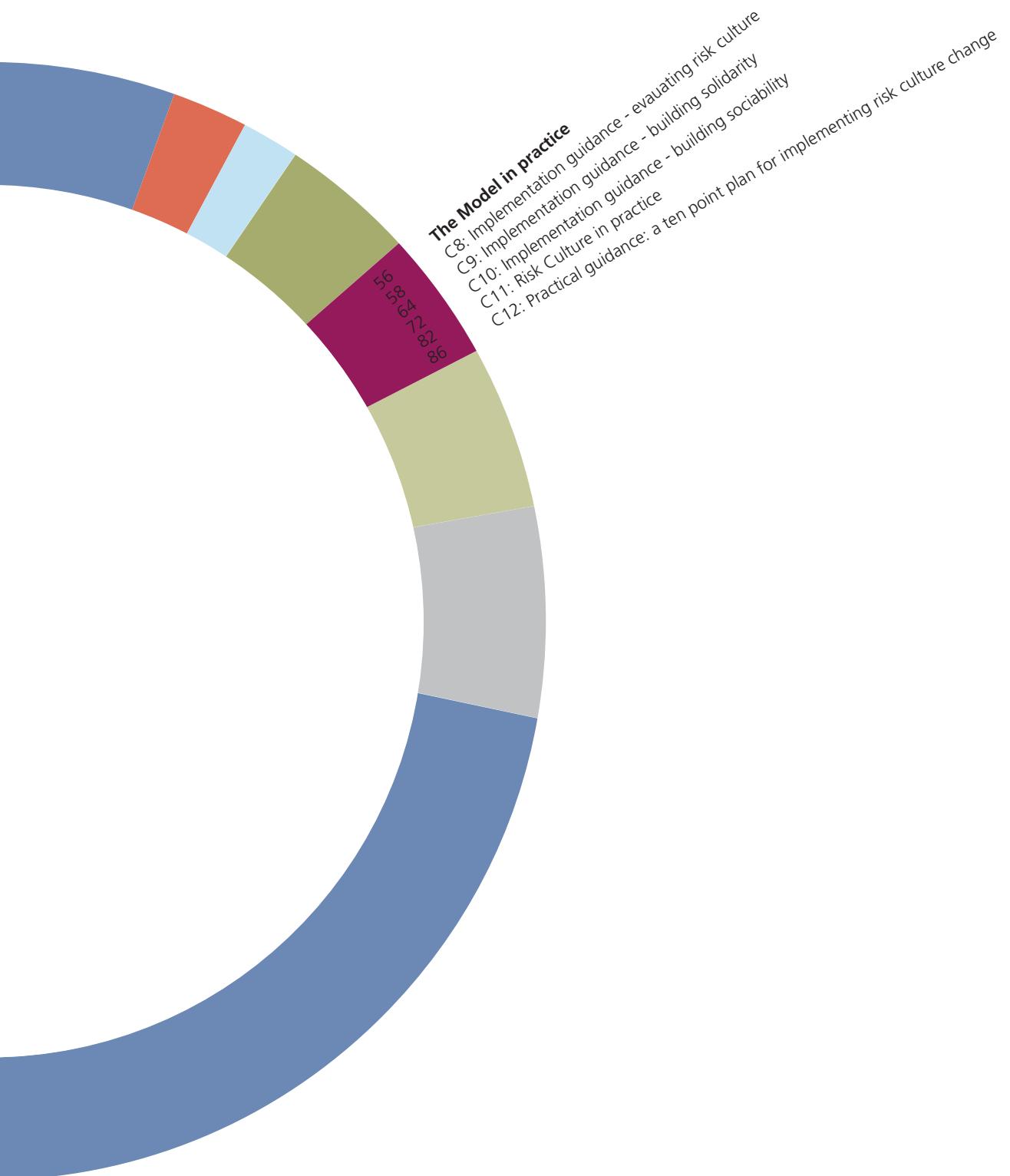
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and with thanks to all our learning partners who made this action research possible

The Enterprise Risk Management Evaluation^{SM} (ERME^{SM}) tool and Culture Cycle Modelling^{SM} (CCM^{SM}) are the property of Consulting People Ltd.

The model in practice

4

Chapter 8: Implementation guidance – evaluating risk culture

Keith Smith and Alex Hindson

In this chapter we take a closer look at the tools available to assess the culture of an organisation. For rigour and legitimacy, we will restrict our examination to a limited sample of tools that have a sound basis in practice, psychology and demonstrable results. We will also provide working detail of the IRM Risk Culture Aspects model as a tool that is public domain, provides proven results and is practical enough for general application in most organisations.

Types of Cultural Assessment

It is frequently said that what you can't measure, you can't manage. With this in mind this work has included several tools which have been examined for their effectiveness in assessing an organisation's culture from the perspective of the risk practitioner.

From the work done it appears that assessment tools in the field of culture fall into certain general classes based on the perspective taken by the developer. Some tools address the individual as the essential part in any culture, where other tools seek to assess the organisation as a holistic unit. Both can lay claim to respected bodies of research evidence for legitimacy and success, so both classes are covered below.

Individualistic tools

The Cultural Model is simple and well used and shares with the Risk-Type Compass (see Chapter 4) assessment a focus on the individuals working within an organisation, viewing them as the elements from which organisational culture develops. The first premise is that the culture of an organisation is shaped by the characteristics of the people it is composed of, so that a 'heritage culture', established by past generations of employees, is constantly being redefined by new arrivals. The second premise is that measurement of the personal characteristics (personality, values, attitudes) can be aggregated to provide an objective estimate of organisational culture. This process benefits from research in the late 80's and early 90's that established an unprecedented consensus about 'the primary colours' of personality.

These five personality factors, labelled as Openness, Conscientiousness, Extraversion, Agreeableness and Neuroticism, are referred to as the Five Factor Model (FFM). Incorporating all the FFM personality themes that are related to risk taking, the Risk-Type Compass is a psychometric assessment that assigns individuals to one of eight Risk Types providing, within the individualistic approach, a tailored assessment of risk culture. The Risk Compass approach provides a more detailed assessment of type and is therefore likely to be a more useful tool in the construction of balanced teams. On the other hand, there is simplicity in Douglas's Cultural Theory (see Chapter 3) which is made attractive by being readily identifiable in famous or iconic individuals. This face validity, seen in many situations, has perhaps been responsible for its enduring legacy even in the face of some opposition. In either of these approaches, the clear value of the individualistic approach is its simplicity, pragmatism, accessibility and utility in characterising the culture of teams and organisations.

Organisational tools
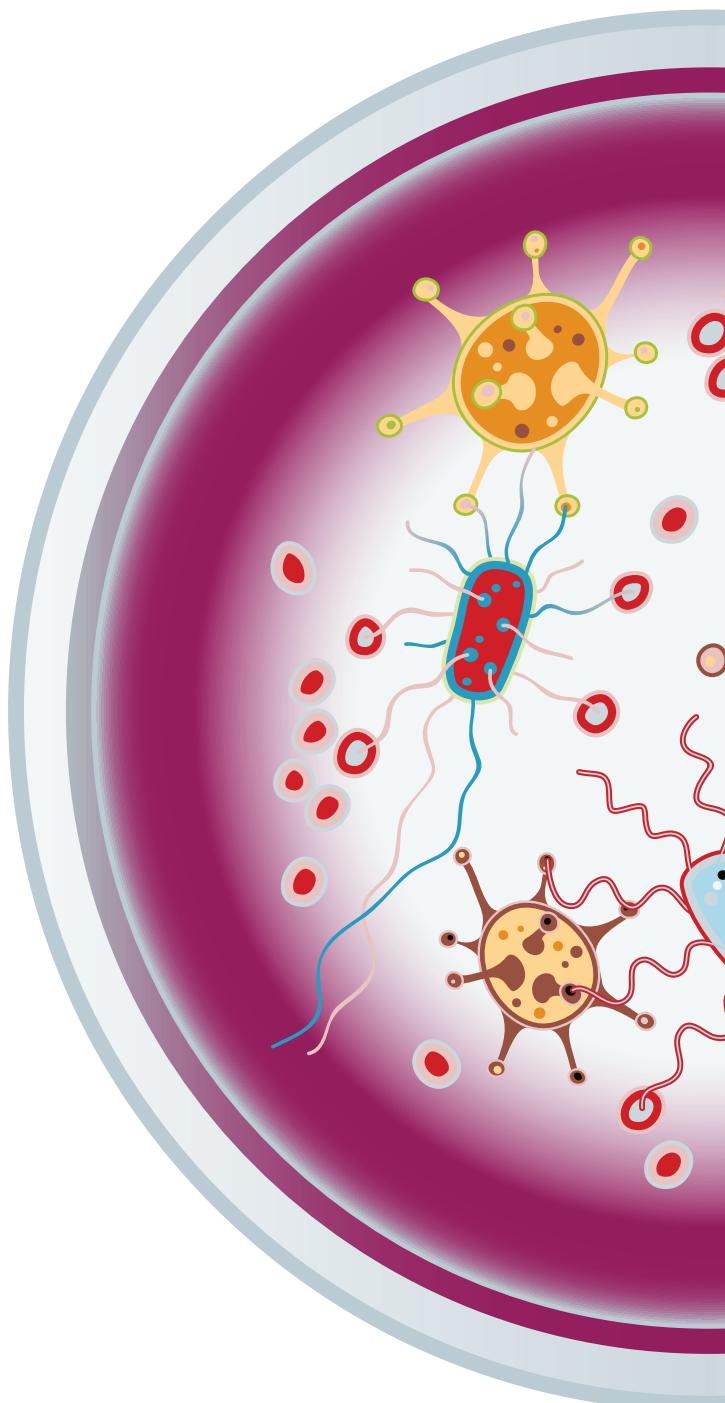
The other main class of tool assesses the organisation as a holistic unit. The value here is that the influences of the organisation and the body of co-workers are taken into consideration. These tools rely on the substantial body of psychological work done with groups, which claim individual behaviour is so modified by the group setting that to analyse the individual outside the group leads to error.

The organisationally based tools assessed as part of this work are the IRM Risk Culture Aspects model, which is detailed in this and other chapters, and the Goffee and Jones Double S model, which has been covered in Chapter 3. While these tools may both be considered as organisational, there are some similarities which may be drawn with the individualistic tools. The Risk Culture Aspects model looks at the organisation through the eyes of the individual and in that regard shares similarities with the individualistic Risk Compass Type assessment. However the Goffee and Jones approach may be applied through observational methods, which share some commonality with the Cultural Theory approach when anthropological methods are used to determine Cultural Types.

Another organisation level assessment commonly used is the Risk Maturity type tool. This type of tool was not tested specifically in this work, as it is generally used to test a range of dimensions beyond risk culture. However we suggest for general organisational maturity there are four dimensions of risk management maturity that an organisation should consider. These are:

- **The business context**: This includes understanding the state of development of the business, its size, industry sector, geographical spread and the complexity of the business model.
- **Risk management culture**: This addresses the extent to which the board (and its relevant committees), management, staff and relevant regulators understand and embrace the risk management systems and processes of the organisation.
- **Risk management processes**: This refers to the extent to which there are processes for identifying, assessing, responding to and reporting on risks and risk responses within the organisation. There are some common factors that should be present in all risk management processes, namely risk identification, risk assessment and risk monitoring and reporting.
- **Risk management systems**: This means the extent to which there are appropriate IT and other systems to support the risk management processes. Most organisations have comprehensive and effective systems for collecting rearward looking key performance indicators (KPIs): namely accounting systems.

Typically, risk maturity type tools work by having a set of four or five descriptions aligned to each dimension, where each describes a different level of maturity. A cross functional sample is taken from the organisation, or in some cases the whole organisation is surveyed. Respondents are asked to select the description that most accurately reflects their beliefs about the dimension under consideration. Well-structured maturity type tools generally give good results when the samples are broadly selected. There are also examples of specialist maturity type tools available that target specific disciplines such as projects. These often have more than four dimensions to explore the breadth and detail of the target discipline more fully.

Use of the IRM Risk Culture Aspects Model

The risk culture aspects model described earlier can also be used as a practical diagnostic tool (see Fig 8.1). For each of the eight aspects of risk culture, a four level scoring mechanism can be applied.

Each risk factor is scored against a four-level word model using a simple traffic-light methodology (blue-green-amber-red). 'Green'

represents 'good practice' recognised in the industry, 'Blue' being leading practice. 'Yellow' findings highlight gaps or areas of weakness and 'Red' highlights areas of particular concern.

This approach allows prioritisation and focus to be brought to what can be a difficult set of issues to grasp.

Question	Theme	Issue	Expectations & Evaluation	
1	Tone at the top	Risk Leadership	Senior Management set clear expectations and strategic direction for risk management. Managers throughout the organisation are clear on what is expected of them in terms of managing risks. Leaders role model risk management thinking and actively discuss tolerance to risk issues. Leaders demonstrate personal conviction. Leaders ensure the focus of risk management efforts is on supporting the organisation in delivering its corporate objectives. The messages are consistently delivered and senior management and visible on the issue of managing risk. There is a clear message and sense of direction which is actively reinforced.	
2		Responding to Bad News	Senior management actively encourages management information related to risks to travel quickly across the organisation. Transparency on risk information (positive or negative) is rewarded and role modelled. Leaders refer to company values when responding to challenges. Openness and honesty are recognised as key to effective risk communication. Those providing timely risk insights are rewarded and encouraged.	
3	Governance	Risk Governance	Accountability for the management of key business risks is absolutely clearly defined. Accountabilities for managing risks are aligned to the accountabilities for key business processes and corporate objectives. The risk function has an active role in ensuring risk information is communicated and challenged. Risk accountabilities are captured within manager's role descriptions and performance targets.	
4		Risk Transparency	Risk information is communicated in a timely manner to those across the organisation needing access. Risk information is provided in a meaningful format that can be absorbed and acted upon by leaders. Where appropriate risk taking is successful, success is widely shared and learnt from. Where risk taking is less successful, learning is extracted from these events and shared in an appropriate manner.	

Fig 8.1 below shows a sample of part of the model.
For the full model see Appendix 6.

Blue	Green	Yellow	red
9-10	6-8	3-5	1-2
In addition to 'green', executive sponsor is very visible and leaders demonstrate their commitment on a sustained basis, show personal conviction in how they communicate and ask questions regarding business risks.	Leadership expectations are clearly expressed and consistently communicated. Direction is set and leaders create a 'Tone at the Top' through reinforcement and challenge.	Leadership expectations on risk management are defined but inconsistently communicated and understood. Staff are not clear on overall direction.	It is not possible to describe a 'Tone at the Top' or leadership expectations on how risks are managed
In addition to 'green', leaders see their ability to extract learning from good and poor risk management judgements as a key corporate competitive advantage. This is seen as part of the organisation's knowledge management process.	Leaders encourage the timely communication of material risk information. They challenge managers to divulge 'Bad News' early to ensure it is acted upon in a timely manner.	The communication of 'Bad News' is sporadic. Attempts are made to encourage early communication of risk information. It is recognised that this is important, but processes are still to be formalised and embedded.	The organisation does not encourage the communication of information about potential negative events. Managers are concerns about communicating 'Bad News' to leaders. Stories exist of 'the messenger having been shot'.
In addition to 'green', leaders act proactively on their accountabilities, seeking out and challenging risk strategies associated with key business risks under their nominal control.	Accountabilities for managing risks are clearly defined and widely understood. Accountability for risk management as a process is held by the risk function. Accountabilities are clearly mapped to manager's roles descriptions and targets.	Accountabilities for managing risk are partly defined. Some key regulatory and compliance aspects are well defined, but the appropriate is silo'ed. The risk management and reporting process is in place but not clearly defined or widely understood.	Accountabilities for managing risks are not consistently defined. It is not possible to be sure who is accountable for managing which risk. Risk management is ill-defined and ownership of the process is unclear.
In addition to 'green', leaders actively seek to learn from risk events. When appropriate risk decisions are taken, these are celebrated. More importantly when risks crystallise, the organisation seeks to learn from these events. The key learning points are widely communicated.	Risk information is communicated up and down the organisation. The information provided is meaningful to leaders and appropriate to their needs. Risk information is actively used in decision making and levels of appropriate risk are clearly defined.	Risk information is effectively communicated on certain specific issues related to regulatory or compliance aspects. Communication of risk information tends to be one-way (bottom-up) with little feedback or leadership direction. It supports a 'tick box' approach.	Risk information is not transparent and is not readily communicated. Managers do not receive risk information on which to base their judgements. It is not possible to define the level of acceptable risk within the organisation.

Figure 8.1 – Sample of Risk Aspect diagnostic tool

Each phase is broken down to enable specific risk management issues to be tested against a best practice framework. The protocol, demonstrated in Figure 8.1, and presented in full in Appendix 6, is itself highly visual and transparent, with scoring being based on either structured interviews or alternatively through an on-line surveying tool. If the interview approach is used, the protocol is completed interactively with scoring based on evidence provided through discussions.

The diagnostic tool is combined with a risk culture planning tool, demonstrated in Figure 8.2. This allows management to consider how to respond to the key findings of the diagnosis. The results of each aspect considered may give rise to the need for action to be taken, or alternatively management may choose to see these as symptoms of a wider cultural issue that needs to be addressed. Regardless of the approach, the tools allow the diagnosis to be to taken through to tangible actions and the implementation of actions managed within the context of an improvement plan, which may form part of an organisation's medium to long term objectives.

	Key Findings	Challenges	Improvement Actions	Priority	Owner
Risk Leadership					
Responding to bad news					
Risk Governance					
Risk Transparency					

Figure 8.2 – Sample of Risk Culture improvement planner

In order to demonstrate the tools used in practice, the IRM conducted an extensive online survey of members and other interested parties between April and June 2012 using this diagnostic tool. For full results see Appendix 1. This repeats an earlier survey conducted in 2011 with 48 responses from the Solvency II special interest group. This survey indicated there was a significant task ahead in embedding risk management into the culture of insurance companies. Training and communication appeared to be areas of weakness in many organisations. Major challenges remain to link risk management to performance management and reward. The overall conclusion was that very few organisations had developed a coherent strategy for influencing and driving the organisation's risk culture.

A full version of the scorecard can be found in Appendix 6 and can also be downloaded as an Excel file from the IRM website.

To conclude this chapter, we offer a set of questions that may be helpful to consider as part of the exercise of identifying and addressing risk culture:

Key questions for the board

Taking a top level approach, the following are questions the board of any organisation should be prepared to ask itself about the organisation's culture.

(1) Have we as a board fully articulated the risk appetite of the organisation such that the culture of the organisation can deliver effectively?

(2) Do we have a blame culture operating at any level of the organisation?

(3) Does the organisation's structure support or detract from the development of organisation wide sociability?

(4) Do we really acknowledge and live the values we publish at every level within the organisation in everything we do?

(5) Do we have multiple subcultures within the organisation and do they support social exchange or are they subcultural barriers to our cultural development?

(6) A communal culture requires time and investment. Do we as a board invest consistently and wisely to develop and maintain an effective communal culture?

Questions to determine an organisation's culture

(1) Are there identifiable stories and values that are commonly referenced and shared within the organisation? If so, what do they say about the culture?

(2) Is there a common theme to organisational artefacts found within the communal spaces of the organisation?

(3) Is there a strong set of published values that are regularly referenced, taught to new joiners and reinforced by management? What do those values say about the culture of the organisation?

(4) Is there a common set of terms or accepted organisational language frequently used within the organisation over and above the terminology common to the industrial sector that the organisation operates in?

(5) Is expertise respected alongside seniority?

A lack of stories and values taken with a lack of communal artefacts can be indicative of either a weak or a strongly functional culture. A functional culture will be marked by a task orientation and strong departmental spirit.

Strong value statements supported by a multitude of communal artefacts that can be linked to a common theme are signals of a strong culture. Where the artefacts, values and themes can be identified with individual groups within an organisation, then there is an identifiable sub culture environment to be considered.

A mismatch between published values and the values and beliefs actually lived out is a sign of a broken culture where blame could be a problem. Risk management is just one of the practices that will suffer in such a culture.

An identifiable language or set of terms with a lack of other indicators is indicative of a subtle culture which is not necessarily weak. Strong functional cultures tend to have a language dimension which is considered as efficient, but which also serves to instil a sense of culture and belonging.

(1) Does the organisation enjoy regular socialisation at either an organisation or departmental level?

(2) Are social events well publicised and well subscribed to by members of the organisation at every level?

Research for this project has shown the importance of sociability in support of the soft skills side of risk management. Social events, their success and who attends them is a good indicator of the sociability dynamics in an organisation. Such events are also good for observing and understanding the scale and depth of sub cultures.

Chapter 9: Implementation guidance – building solidarity

José Morago and Malcolm Bell

This chapter focuses on those aspects associated with building the 'solidarity' aspects of organisational risk culture through changes focusing on governance and the risk management framework. This section provides practical implementation guidance and should be read in conjunction with Chapter 10 addressing the competency or 'soft side' of risk culture that will build the 'sociability' aspects. This section does focus on a number of risk management processes and procedures but this is in order to demonstrate their connection with risk culture.

The IRM Risk Culture Aspects Model identifies eight aspects of risk culture, grouped into four themes, key indicators of the 'health' of a risk culture, aligned to an organisation's business model. The Risk Culture Aspects Model specifically links the aspects shown in blue to improvements in Solidarity, or in this context risk governance.

Figure 9.1 – IRM Risk Culture Aspects Model

The weaknesses or misalignment of key elements of the risk system can promote the wrong behaviours and impair the organisation's ability to manage risks. There are plenty of examples of how ineffective governance or an unclear "tone from the top" have facilitated and promoted the wrong behaviours and ultimately impacted the standing of organisations.

This chapter will focus on the key considerations of how to fine-tune, design and align the key elements of the risk systems to enable the right risk culture.

This section assumes that risk culture is an outcome influenced by the risk system. However, equally it can be said that in practice the relationship is tightly coupled and that risk culture influences the nature of risk governance processes and frameworks. We will demonstrate that risk culture needs to be managed or monitored so that it can support the risk governance system, otherwise it risks distorting the system.

The connection between the risk system and risk culture

The table below shows the connection between the broad risk culture traits (potential sources of failure or strength) and the more tangible elements of the risk management system.

Risk Culture Traits	Description/issues	
Attitude	The level of openness, challenge or confidence to assess or take key decisions. Denial of current organisational issues/risks, over-confidence and lack of open decision process (may have dramatic consequences).	
Response	The organisation's level of response to issues/risks/opportunities is generally influenced by the level of competency, the willingness and speed of decision of the organisation/people. Conversely detachment and slow response is a source of risk culture failures.	
Respect	The level of effectiveness of the risk function and respect for risk (or conversely disregard of the rules/risk perceived as a "tick box" exercise) is influenced by the perceived value added of the risk management process to the organisation. The desire to "do the right thing" is also driven by the ethics and values of the organisation, the level of collaboration among functions/internal stakeholders and the commitment to risk from the top.	
Transparency and alignment	The level of communication, understanding of the key risks of the organisation and the guidelines in terms of the appetite of the organisation define the ability of people to take action and decisions in a coordinated and consistent basis. Ambiguities and lack of insight of issues promote risk culture failures or unwanted behaviours.	

As risk professionals the question now is how to design and fine tune each of the elements of the risk management system (right hand column) so that it minimises the potential of failure and actually supports the risk culture vision of the organisations.

We will look at each of these elements separately.

Considerations to steer risk culture traits	Risk Aspects dimension
Establish a clear vision of the approach to risk in order to the achieve the firm's strategic objectives. Communicate effectively the risk vision and establish a "tone" which clearly transforms words into a "common approach and vision", understood at all levels in the organisation.	1. Tone at the Top – Risk Leadership
Establish the right forums to discuss key decisions and to ensure effective risk oversight and response. This platform should ensure the right agenda, escalation/prioritisation of decisions, and feedback from the individuals in the organisation.	2. Governance - Accountability
Develop a set of policies/standards that provide confidence to individuals on the way to operate and manage risks.	3. Decisions- Informed Risk Decisions
Establish proper risk management processes that support the strategic vision of the company and provide value. Structure the risk organisation so that it provides a good balance between right level of empowerment and value-adding to the business Clarify the key responsibilities and deliverables for the risk organisation	3. Competency - Risk Resources
Development of focused risk tools to inform risk-based decision making. Establish an effective risk transparency and risk appetite framework that ensures alignment and decision in line with the risk vision of the organisation. Ensure the effectiveness of these tools is driven by i) the level of trust in the results, ii) the clarity of the output and iii) the level of integration with the firm's key processes and value chain.	4. Governance - Risk Transparency

Table 9.1 Risk Culture traits and the risk management system

1. Tone at the Top and risk leadership

More than ever, in the uncertain and capital constrained world we now live in, risk has a vital role to play in the strategic vision of companies. The most visionary leaders recognise appropriate risk management and a clear risk vision as being essential for the success of their organisation. Furthermore, the abilities of these leaders to communicate their risk vision and establish a "tone from the top", both internally and externally, have proven critical to achieve the objectives of their organisation's.

In the 1990s capital was cheap and freely available. Therefore many firms based their strategies on "geographic flag planting" in order to chase profit growth regardless of the risks and capital requirements. In recent years, many business failures (i.e. Kodak, AIG) have occurred as a result of failure to inextricably link risk vision and strategy as part of the same process and to have a clear understanding of the appetite and risk implications of one particular strategy.

Defining the risk strategy is not enough: leadership should be able to effectively communicate the "risk vision" and create a culture where everyone has ownership and responsibility for doing the right thing for the organisation. These words, or "tone from the top", need to be understood by the entire organisation and by key external stakeholders (i.e. regulators, investors, customers etc). These words need to be transformed into effective decisions and actions. This will ultimately define the organisation's ability proactively to protect the value of the company and to advance the strategy in the most effective risk-opportunity trade-off.

Warren Buffett's consistent risk vision and communication

"Risk comes from not knowing what you are doing."
Warren Buffett.

For years, the "Oracle of Omaha" has been known for consistently applying distinctive principles for investment valuation and risk taking. Warren Buffett does not just buy shares and move forward to hunt other business opportunities. Instead he walks into the management boardroom and starts working with them to sharpen the company's vision and strategic management.

He is also well known for his annual letter to shareholders, whereby he communicates very effectively his risk vision.

Driving the right "tone from the top" is a lot about perception. The leadership team must lead by example if they want their troops to follow them: they need to "consistently do as they say". There is a list of infamous examples of business failure such as Enron, Murdoch's empire, Lehman Brothers and Northern Rock where leadership failed to set the right tone from the top and lead by example.

In some cases however they led by example but the strategy involved risk that was not challenged. Leadership must be open to receiving bad news. Dominant personalities, especially in those who have been in their position for a very long time, can easily create an atmosphere where problems are hidden in the hope that they can be sorted out.

Success factors for defining a "risk vision" and driving "tone from the top"
Leaders must clearly articulate how the organisation can most effectively balance risk taking and value creation in the firm through a risk appetite framework including statements, measures and quantum.
Leaders should clearly articulate simple and effective CRO or CEO top lists of expectations with regard to risk management and decision making. These lists should be known by everybody in the organisation.
Leaders should reinforce the risk strategy and culture in any communication (i.e. roadshows, business plan, strategic plan, etc). They should challenge senior management in detail on "your risks" and "how you manage those".
Organisations should put in place confidential channels and a requirement to listen to all points of view so that bad news does not get hidden or go unnoticed.
Leadership should explicitly define the desired risk culture and values. This can be promoted by a "clear set of risk values ". Leaders should promote this "risk culture" with business oriented risk sessions at Senior Leaders Council, Regional Summits and events (i.e. "risk values days").
There should be a top-down process (i.e. business planning, ORSA) that establishes a clear axis between risk, capital and strategy in order to maximise shareholder returns.
Clear risk-related objectives should be defined when setting the company targets (i.e. risk-adjusted returns, etc).
A feedback loop process and an approach to challenge the existing status quo should be established to avoid "risk traps" (i.e. "we always have done it like this" or "everyone else is doing it").

Ultimately, a solid risk vision and tone from the top should be embedded in culture and values statements, performance measures, strategic objective setting, and the strategic capital allocation framework among others.

Governance and accountability

Governance

The effectiveness of organisations to respond to issues, risks or opportunities can be strongly influenced by their risk governance. Effective risk governance, through use of objective measures and wider participation in decisions, should shine a spotlight into all areas of the business and make it difficult to hide or bury risks. Conversely, a failure of risk governance and risk oversight can have dramatic consequences for organisations. Cases such as Bear Stearns, BP, Enron etc have a common denominator - governance failures that resulted in the wrong attitude to risk.

Not surprisingly, regulators and regulations have become very focused on governance as a backbone of effective risk management. Recent major regulations and assessments, such as the Walker review (2009), the European Commission green papers on corporate governance (April 2011) and the Solvency II Directive have placed governance at the heart of effective decision making and value protection.

Risk governance should aim to enhance the organisation's ability to take better, risk based decisions considering four key questions:

- Quantum - how much risk to bear?
- Risk and capital allocation - where to invest?
- Risk limits - when to reduce exposure?
- Risk accountability - who to put in charge?

Getting the questions above right would ensure the future and success of the organisation. Thus senior management needs to establish the right forums for decision making as well as defining clear responsibilities and formality around key decisions. This is typically achieved through i) an effective delegation of authority framework and/or committee structure ii) a policy framework and set of business standards.

Toyota's risk governance questions

Toyota's desire to supplant General Motors as the world's number-one car-maker had allegedly pushed it to the limits of quality control. The Toyota brand, once almost synonymous with top quality, took a heavy hit in the context of a technical fix for its sticky gas pedals. Having already halted sales and production of eight of its top-selling cars in the U.S. - and recalled more than 9 million cars worldwide, Toyota faced the prospect of billions of dollars in charges and operating losses.

One wonders if, when accepting management's plan for aggressive growth, Toyota's board of directors exercised appropriate risk governance (i.e. risk quantum or limits) and assessment to ensure that growth could be achieved without betting the entire franchise.

The delegation and committee arrangements should not only bring rigour to the decision making process but also enable the right behaviour and culture and allow agility and speed of response. To ensure alignment and good engagement, any committee or formal discussion forum requires a range of perspectives, and thus the membership structure should be well thought through. The governance process design should have the right focus and priorities and include an effective escalation process (typically based on the risk appetite framework). Finally, the governance platform should enable a good level of challenge and openness by establishing appropriate feedback loops where virtually any individual can participate.

A second element for effectiveness of risk governance is a "rule book" or set of principles that describes the way the business should operate /manage risks. This is typically formalised in a policy framework and potentially further articulated with a set of business standards that explain in further detail the risk and controls of key processes. Furthermore, this policy framework needs to be owned/approved by the board and should be continuously assessed and challenged both internally and externally (typically by external auditors and regulators).

From the risk culture perspective, it is essential that the policy framework gives confidence and clarity to all individuals on how to operate and manage risks. A particular source of failure is ambiguity on mandatory rules and principles: when to bend rules, when to be flexible. Senior management must ensure clarity about this.

NewsCorp

Widespread phone hacking of celebrities and crime victims, as well as illicit bribes paid to British police officers, severely damaged the reputation of the $50 billion empire, News Corporation. The phone-hacking scandal led to the arrests of several News Corporation executives, parliamentary hearings and a public apology by Rupert Murdoch. The case shows a striking lack of stewardship and failure of independence by a board whose inability to set a strong tone-at-the-top about unethical business practices resulted in enormous costs.

In 2011, James Murdoch, former chairman and chief executive of News Corp, said in the House of Commons: "These actions do not live up to the standards that our company aspires to, everywhere around the world, and it is our determination to both put things right, make sure these things don't happen again, and to be the company that I know we have always aspired to be."

The risk governance process should also enable "enforcement" of the firm's risk strategy and thus provide the power to certain committees or functions to scrutinise some critical decisions, in particular strategic transactions involving acquisitions or disposals. Internal audit, on behalf of the board, should check that decisions are being passed through the appropriate governance structures and that leaders are adhering to the governance structures.

Success factors on risk governance as enabler of the right risk culture
Define a clear escalation process in line with the risk appetite framework and the delegation of authority to key individuals.
Be clear as to which decisions can be taken by an individual and which should be taken by a committee / board.
Define a 'common currency' for key decision or risk exposure (i.e. economic capital requirement).
Define a committee structure with a participation of broad range of business areas and expertise.
Set clearly understood boundaries (i.e. breaching vs. bending rules), tolerance and limits for accountability. Establish a clear communication plan and training to promote "risk responsibilities".
Establish a set of policies/standards that describe the way the business should operate /manage risks.
Have clarity about where decisions are made, and which are documented and recorded.
Define explicit "trigger points" to act quickly when the firm finds itself exposed to 'excessive' amounts of risk or to "risk opportunities".
Establish "decision templates" and minimum information/risk metrics requirements for key decisions in committee.

Accountabilities and role descriptions

An important aspect of any enterprise risk management framework is how responsibilities are assigned for risk management activities. This is commonly described within most ERM frameworks. The challenge is often to 'make it real' for people, particularly for general management, where managing risks is but one of many demands they need to balance. By providing clarity of individuals' contribution to the overall operation of the framework it is possible to make them feel as if they have a stake in its overall success.

At one level, job descriptions can appear to be a 'blunt instrument' for effecting change. There are strong precedents for showing that by including safety or environmental responsibilities within managers' roles within the chemical industry in the 1980s a signal around senior management's intent to make each member of staff personally responsible was demonstrated. Some perceived this as merely 'greenwash'. However over time, and as part of a wider change programme, role descriptions do provide for an overall directional change.

The definition of accountabilities for staff within job or role descriptions is closely linked to performance management (covered in the next chapter). From a cultural perspective it ensures that everyone is clear on what they are expected to do and how they are expected to behave. Accountabilities such as membership of a risk committee, risk ownership or decision-making authority should not just reside within a job description. It needs to come alive through managers' behaviours. Inclusion in job descriptions is merely a precursor to this happening and a signal of this being important.

This can be seen as part of a wider 'risk capability' approach particularly where roles with strong risk management content are structured to support and deliver the overall risk management framework. Where specific roles are defined within the framework, it is then possible to map each role's contribution to the delivery of this framework in a very tangible manner.

In large organisations, with devolved human resource functions, the practicalities of ensuring that all staff with a risk management role have this adequately documented is not to be under-estimated. This can be both logistically complex and also challenging given the nature of communication and vested interests within the organisation.

Practical implementation can be very challenging for risk functions if they do not have adequate support and sponsorship. This is an area where having the context of the risk management framework to fall back on can be helpful. It can be all very well having motherhood statements regarding 'risk management being everyone's responsibility', but it is critical to ensure that everyone recognises this to be the case. Depending on the organisation's culture, implementation may need to be mandated from executive management or alternatively reviewed by Internal Audit.

How could you best use job descriptions and management accountabilities to bring home to managers in your organisation the relevance of managing risks to their day-to-day responsibilities?

Case Study:

Amlin plc defines three key roles within their risk framework.

At London market insurers Amlin, a key principle of risk management is that there is clearly defined ownership and accountability for managing risk across the organisation. The three roles are defined as follows:

Risk Owner:
The senior executive with the accountability and authority for making the decisions that weigh up the balance between risk and reward appropriate to the organisation in managing a specific risk.

Risk Coordinator:
Risk coordinators are managers with a role of championing risk management in their respective functional and business areas. This translates into a standardised role description element:

" To act as the risk coordinator for [function] ensuring that the enterprise risk management process is implemented and to support the implementation of the Amlin Group framework. To coordinate all local activities to support risk assessment and management actions are completed to agreed timelines. To monitor progress on completing actions and report to management key risk metrics."

Risk Manager:
Line management has the primary responsibility for managing risks within their control on a day-to-day basis.

This translates into a standardised role description element:

" To act as a Risk Manager within [function] ensuring that the enterprise risk assessment process is maintained up to date and to support the [function] Risk Coordinator in the local implementation of the Amlin Group framework. To complete any risk management actions assigned to them within the agreed timelines. To report risk events and emerging risks to the [function] Risk Coordinator in a timely manner."

Informed risk decisions

A key element of any risk governance framework is ensuring that the right information is provided to management and boards to enable informed decision making with respect to risk issues.

Risk decisions should not be divorced from business decisions. An effective risk culture ensures that risk information is integrated into business information and that information on key risks is provided in a timely and appropriate manner to ensure that business decisions are informed by a balanced perspective on risk implications.

A cultural indicator of effective decision-making is that leaders actively seek out and demand high-quality risk information as part of making decisions. Risk awareness becomes a 'watermark' through decision-making in the sense that leaders are educated to demand and expect information on the risk implications of any strategic options or initiatives to provide a balanced business case. The rewards and risks are put into context and decisions can be made on an informed basis.

A benefit of effective risk information and reporting is that the organisation is willing to take risks in uncertain situations based on clearly understood and communicated risk information.

A significant area of risk and opportunity in any organisation is associated with mergers and acquisitions. Clearly there are strategic benefits that can be derived from such transactions, for example developing market share and scale, enhancing technological portfolios and cost-saving synergies associated with scale.

However it is important to ensure that decision-making is driven by commercial logic and not emotion and enthusiasm.

Research has highlighted that acquisitions generally fail to deliver value due to ineffective project management. Acquirers can get 'locked into the deal' and not stand back from the process as it proceeds. Insufficient thought is sometimes given to the integration processes required after the deal completes to make the process a success. This is reinforced by the fact that cross-border acquisitions are more difficult to make successful, potentially due to the cultural differences.

Having a structured process for managing acquisitions is a key element. The strategic plan should identify potential target organisations. It is absolutely key that executives ask the fundamental question – "why are we buying?"

CASE STUDY: IFAC (2003) define a structured 8-step process for managing the acquisition process which is outlined below:

Step	Activity	Key tasks and rationale
1	Initiate Project Team	The right resources must be identified and deployed at the earliest opportunity.
2	Target valuation	It is vital to understanding the value of the target organisations. Sensitivity analysis should be used to understand the robustness of the evaluation and what factors might influence the viability of the deal and hence
3	Identification of key risks	Is the deal consistent with the existing business strategy? Is the target organisation of sufficient quality? Does the acquiring organisation have a track record of success in acquisitions? Can management integrate this deal into the existing organisation? Are there any 'killer concerns' or deal breakers?
4	Identification of key risks	The business case sets the context for the financial valuation and outlines the strategic logic for proceeding.

Step	Activity	Key tasks and rationale
5	Due diligence	Checklists are useful in this stage to ensure that managers responsible for different aspects have a structured approach to gathering data and providing an opinion. Many acquisitions fail however because significant cultural integration issues are not identified and addressed at this stage.
6	Finalise the deal	This involves the formal sign off of the deal in terms of outcomes of all the processes undertaken to date including valuation, risk assessment and due diligence.
7	Integration and implementation	Many of the problems and hence loss in value occur because integration plans are not seen through and delivered in practice.
8	Post audit	It is important that any acquisition process includes a review to ensure learning is captured and can be shared with future acquisition project teams. This is where risk management learning is created.

Competency and risk resources

At the core of the risk management system and ultimately of any risk decision is the risk management function and its associated risk processes. In this context, and in order to promote the right risk culture, the risk organisation should command respect and trust. This requires that i) the risk organisation is structured such that it provides a good balance between empowerment and value-added to the business and ii) risk processes are part of the DNA of every decision and action.

Risk Management Process failure in the BP Gulf of Mexico Oil Spill

The April 2010 blast aboard the Deepwater Horizon rig killed 11 people and caused one of the worst oil spills in history. A major US report blames bad risk management decisions for the BP oil spill. BP did not have adequate controls in place to ensure safety, it found. BP said in a statement that the report, like its own investigation, had found the accident was the result of multiple causes, involving multiple companies. Specific risks the report identifies include:

• A flawed design for the cement used to seal the bottom of the well

• A test of that seal identified problems but was "incorrectly judged a success"

• The workers' failure to recognise the first signs of the impending blow-out

The US presidential panel wrote. "BP did not have adequate controls in place to ensure that key decisions in the months leading up to the blow-out were safe or sound from an engineering perspective."

Nowadays, many firms refer to the 3 lines of defence model when talking about the internal control and risk system. The 1st line or first level of risk management is taken by the key business functions, the 2nd line of defence is performed by the risk management organisation and the 3rd line of defence is provided by the board audit committee and the internal audit function. As mentioned, a first challenge of the 3 lines of defence model and the risk organisation is the balance between empowerment and value-added to the business.

In this context, rather than acting as a gatekeeper, the risk function should provide independent challenge and advice to the business as well as participate in business and strategic decision processes. For many industries and organisations, this is typically a long journey where the risk function needs to gradually build credibility. This journey or risk management cycle typically follows the phases described below.

	1	2	3
Phase	Risk management infrastructure building	Risk as part of the business	Intergrated risk-return decisions and functional excellence
Risk function role	"Project implementation"	"Business partner"	"Strategic partner/facilitator"
Key considerations from the risk culture perspective	• Risk organisation and the risk decision process are not fully effective yet • Weakness of risk culture and wrong behaviours can be difficult to identify • Tone and support from the top are critical to embed risk processes and build trust on risk	• Risk processes start to get integrated in the day-to-day business • Wrong behaviours should be easier to identify and spot • Additional focus on the upgrade risk culture of the organisation is needed	• Risk organisation facilitates the value creations for the company by providing risk-return transparency, governance and strategic guidance • Risk proactively manage the risk mitigations/solutions to exiting risks • The risk system and risk culture should be matured

Figure 9.2 Building the risk function

To get to the right level of empowerment and credibility, the CRO should have the right standing in the organisation (i.e. ideally report to the CEO and be on the board of the organisation). In fact, the recommendation from the Walker review (2009) supports this principle. Furthermore, the risk function should be staffed with people of the right calibre.

The effectiveness of the risk organisation is also driven by the risk processes, which ultimately should help with the identification, management, monitoring and reporting of risks. Depending on the industry, these risk processes typically include a risk and control identification and assessment, loss event management, risk mitigation activities, contingency planning and risk reporting. The aim should be to embed all the risk processes in the firm's value chain (i.e. from product development and sales, to IT and operations). In this context, risk management should have clear deliverables and responsibilities to support the day-to-day decisions. These deliverables (i.e. risk position papers, risk reports) should be understood by everybody.

• The firm needs to define a clear 3 lines of defence model, with clear roles and responsibilities
• All senior staff should be trained on the key risk processes and outputs (reports, analysis, etc)
• Firms need to develop an escalation and prioritisation approach to ensure a proportionate level of involvement of the risk function to a particular process/decision
• The right calibre of individuals need to be recruited within risk management in order to develop a highly regarded risk culture
• Organisations' processes and reports should focus on the "upside" of decisions, not just the downside risks

Success factors in the design of the risk organisation and processes
• The board should ensure the right empowerment and authority for the risk organisation. This should include clear reporting lines and standing in the governance structure.
• The board should also ensure that the CRO has the correct profile within the firm in reflection of the importance of risk management
• Each business process should define the role, responsibilities and deliverables for the risk function

Risk Transparency

Risk tools are essential to run risk management day to day but can also be used to support the right risk culture and behaviours. These tools should provide the transparency and the insights to support better risk decisions. However, from the risk culture perspective, the effectiveness of these tools is driven by i) the level of trust in the results, ii) the clarity of the output and iii) the level of integration with the firm's key processes and value chain.

Depending on the industry, these tools typically include the risk registers (including control assessment), risk appetite and capital management framework, risk and capital models, stress testing/ scenario analysis and risk reporting platform.

From this list above, a risk appetite framework is critical to ensure alignment and the connection with the risk vision and strategy. Another set of tools that has become very prevalent with the crisis is stress testing and reverse stress testing, which is well used in financial services, but to a lesser extent in other industries. The discussion about scenarios and the definition of management actions forces leaders to think outside the box and move beyond their comfort zone. Decisive action once a trigger is breached is typical evidence of a strong risk culture.

Risk tools and transparency that enable the right culture
• The firm needs to use a suite of risk tools, metrics and analysis before taking any action
• Risk outputs should be formally challenged and validated to ensure full trust in the results. Furthermore, firms should have the appropriate forums to ensure thinking outside of the models as well.
• Each business process should define the role, responsibilities and deliverables for the risk function
• A decision template and minimum information requirements for key decisions should be established by the risk committee
• All senior staff should be trained on the key risk tools and outputs (reports, analysis etc)
• Firms should develop standard and comprehensive risk management information (MI), which should be readily available
• Stress testing processes should be used to challenge the organisation's risk culture "risk traps" (i.e. "we always have done it like this" or "everyone else is doing it").

Fukushima: Stress Testing in Nuclear power plants

During the 2011 earthquake and tsunami disasters in Japan, Tepco was heavily criticised for not taking decisive action once risk trigger limits had been breached. Furthermore, the Fukushima accident showed that two natural disasters can happen at the same time. The nuclear power plant could withstand the earthquake but could not cope with a Tsunami of up to 20 meters high which followed and cut off the power supply to the plant.

Following the nuclear accident in Fukushima, the EU reacted swiftly and agreed on voluntary tests for all of its 143 nuclear power plants based on a set of common criteria.

As mentioned, risk tools should be trusted throughout the organisation otherwise objective risk decision making becomes more challenging. To overcome this challenge, any risk or capital models must be independently validated. In fact, new banking and insurance regulations, for example, place particular emphasis on "model validation" activities. There also needs to be a process of continual improvement whereby tools are adjusted according to results from experience.

Closing the circle

The initial starting point of this chapter was that risk culture was an outcome of the risk management system. Ultimately risk culture is also a core component of the risk system and needs to be actively managed accordingly. Thus the assessment, monitoring and management of risk culture are also critical for the success of the risk system and the organisation. In a recent industry-wide survey (Towers Watson 2010) 64% of the senior managers (mainly CROs and CFOs) agreed that addressing risk culture is one of the most effective risk techniques to address business performance.

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Chapter 10: Implementation guidance – building sociability
Alex Hindson

This chapter focuses on those aspects associated with building the 'sociability' aspects of organisational risk culture. We are focussing on the 'soft side' of risk culture, associated with people, development and communication. This section provides practical implementation guidance and should be read in conjunction with Chapter 9 addressing the governance, or 'hard side' of risk culture that will build the 'solidarity' aspects

The IRM Risk Culture Aspects Model identifies eight aspects of risk culture, grouped into four themes - key indicators of the 'health' of a risk culture, aligned to an organisation's business model. The Risk Culture Aspects Model specifically links the red aspects to improvements in Sociability, or in this context people and development strategies.

Figure 10.1

Risk Culture Aspects Model

The objectives of the model are to provide practical guidance on how to approach the people and development strategies associated with creating risk culture and to demonstrate the importance of the human resources function when establishing the appropriate risk culture for an organisation.

We consider four aspects in turn:
Risk disclosure – escalation and reporting of risk events
Performance management and reward
Awareness and communication
Learning and development

These aspects are brought together through the development of an overall ERM strategy and change programme which can be monitored with a **Risk culture dashboard**.

Setting an ERM strategy with risk culture at its core

When addressing enterprise risk management in any organisation, organisational change plays an essential part. Any risk management intervention is by its nature impacted by the nature of the organisation's existing culture.

Like any other change, it needs careful project management. There needs to be a coordinated approach linking the diagnosis of the current status of risk maturity and risk culture to the desired target state. It is important that management are clear in respect to how different elements of an ERM programme interact and contribute towards driving the culture in the direction they want.

When it comes to changes in risk culture, it is important to set clear Key Success Factors (KSF). These are measures of the desired end-state and allow the organisation to know when it has reached its destination.

Lloyd's of London (2011) have defined a number of Cultural Indicators (CIs) associated with creation of a risk culture in the context of Solvency II regulatory change. These are linked to key measures of risk culture and its development, each defined as part of a sliding scale from least favourable to most favourable. The organisational self-assessment being established uses evidence-based reporting around the following factors.

Measure	Least favourable indicator	Most favourable indicator	Current status
Tone at the Top	RM has a purely advisory role, is solely a response to regulatory requirements, or is nonexistent as a discipline. Little board access.	Governance structure supports effective risk management through board access, authority, and management reporting	
Competency	Employees don't understand the meaning of risk management	Employees can identify risks and know what and when to escalate. Risk management reports are known and used	
Decision Making	Risk is not considered in business decisions	Key business decisions are not undertaken without consideration of risk Management Information (MI)	
Performance and Reward	Risk management is not part of an individual's remuneration and performance rating	Objectives setting align to risk management responsibilities and there is a clear link to an individual's remuneration and performance	

Table 10.1 – Risk Culture Indicators
(adapted from Lloyds (2011)

While designed for the Lloyd's market the components set out can be used more widely for any type of organisation.

Successful implementation of ERM requires careful management and engagement of stakeholders. Key people need to buy-in to the objectives of the process. In their work Being First Linda Ackerman Anderson and Dean Anderson define some pre-requisites for gaining commitment and influencing behaviour:

- the organisation from the directors downwards shares a common vision of the future
- leadership presents a unified front to employees in support of the vision
- appropriate time is granted for discussing, managing and implementing change
- issues or concerns that may block success are raised transparently
- timelines and commitments are honoured or publicly altered to ensure leadership credibility
- people directly involved in the change have some way to input and influence the process
- leaders are role models of the mindset and behaviours required
- the performance management and reward system directly reinforces support for the change process and desired result

An important aspect of any change management process is to clearly describe at the outset the behaviours sought and the means by which it is proposed to achieve them in practice. The review of risk culture models in previous chapters considers this in more detail.

A - Risk disclosure - escalation and reporting of risk events

A fundamental test of any organisation's risk culture is the extent to which it is able to internalise and learn from risk events that have occurred. What is discussed can be addressed. What management focuses on can be improved. On the other hand what is hidden or only whispered about can cause serious damage.

Organisations can only learn lessons from failure if they have robust internal processes and ensure that reporting of problems occurs at the earliest opportunity. A clear measure of 'Tone at the Top' is whether management conveys the message that it is worse to delay the communication of a difficult issue or whether in reality executives do not really want to hear bad news. Ideally 'near miss' events should be identified and analysed in time to prevent unexpected losses occurring to the business. Strong procedures and processes are clearly required to do this - senior management need to decide that is an imperative part of creating a risk culture.

Communicating the purpose of the process and providing coaching at all levels is an important aspect of rolling out a risk event reporting process. Staff need reassurance that they will not be penalised or victimised for reporting events in much the same way as a whistle-blowing process needs very careful positioning and explaining. Staff will of course feel less secure in reporting events at times of organisational change and restructuring and this needs to be recognised.

It is worth ensuring that there is common understanding of the meaning of a Risk Event. There is often much debate regarding what constitutes an incident. This in itself may reveal much about the organisation's culture. It is generally recommended to keep the definition as simple as possible and encourage management to remember why it is being reported.

An incident (an operational risk occurrence) causes a direct financial loss or reputational damage. It is therefore an unexpected or unintentional event. These are generally associated with a failure of a process, a system or a human error.

By contrast, a 'near miss' is a situation where no financial loss or reputational damage has occurred, but control failure has occurred. The failure has not resulted in a loss either because another measure has operated successfully, or simply the organisation has been able to manage the situation.

The primary purpose of the process is to capture and share learning from unexpected or unintended events. Reporting of such events should be a non-threatening process, with no blame attached to those highlighting the occurrence of an event. This is an essential aspect of creating a risk aware culture whereby open discussion of what could and has gone wrong is encouraged. Only in such an environment can the recurrence of such events be prevented.

Risk event reporting is about continuous improvement and making risks themselves as visible as possible to staff within the organisation. Disclosure will ultimately result in staff in each part of the organisation being able to discuss the risks associated with their departmental objectives and whether appropriate actions are being taken. Ultimately risk event reporting supports this overarching aim by making the process more tangible. Rather than discussing what could happen, it is also possible to review what has happened, to that part of the organisation or other departments, and seek to learn from these experiences.

A risk event reporting process needs careful planning and consultation in its implementation. Key stakeholders including senior management need to be briefed on how the process will operate and understand that their initial reaction to events being reported will colour its uptake. If management respond negatively or disproportionately to those reporting events, they could stifle the culture they are seeking to create.

Similarly, communication to staff in general needs to be carefully managed to ensure that they understand what is and most importantly is not being done through risk event reporting.

It is important through the identification and analysis of risks to identify what represents the root cause of the event. Treating the symptoms is not as effective a strategy as addressing the cause at its source. Merely surfacing these issues starts to change the culture of an organisation. Being seen to address the issues often empowers others to also report further risk events.

Learning does not need to be restricted to events within an organisation. Harnessing information from external events at other organisations and combining this in a culture where 'near miss' events are reported, analysed and discussed should strengthen an organisation's ability to manage.

In some organisations that have been successful over long periods of time one of the primary challenges is to overcome a sense of invincibility that has been created. Discussing external events creates opportunities for people to recognise that organisations remain vulnerable to changing external circumstances.

Heinrich developed the 'Domino Sequence' concept as a means of explaining the development of safety-related accidents and how to prevent them. This concept can be adapted and applied to the wider context of business risk. The real failure is to allow the same event to occur twice within the organisation without seeking to prevent it.

However, how can organisations truly encourage managers to demonstrate the courage of sharing with their peers what has gone wrong?

Case Study - ORIC

ORIC (Operational Risk Consortium Ltd) is the leading operational risk loss data consortium for the insurance sector globally. The consortium, founded to advance operational risk measurement and management in the insurance sector in 2005, is owned by over thirty leading insurance companies. Its members submit quantitative and qualitative information on operational risk events, which have or could have given rise to a material financial or reputational impact. This data is anonymised, pooled and shared, giving member firms access to a diverse pool of insurance operational risk loss events, knowledge which would otherwise be impossible to acquire. Members use this data-set to manage and model capital, benchmark and improve risk management.

Access to external data of this type provides members with a deeper understanding of the operational risk events they are exposed to and consequently the ability to model operational risk with greater precision for regulatory capital purposes.

ORIC members draw on the qualitative information associated with these operational risk events to challenge the adequacy and effectiveness of their own control frameworks. By asking 'Could it happen here?' managers can provide their organisation with a view of potential risk exposures, enabling effective risk decision making.

It is evident that by sharing information on risk events both within and across organisations a firm can learn from these, take pre-emptive action (if necessary) and reduce its exposure to avoidable losses.

Could it happen here? - examples of losses from the ORIC Database:

'Payment made to a fraudulent bank account. Instructions received from Supplier (apparently) requesting a change of Supplier contact name. Instructions then received requesting a change of bank details. Both on Supplier's headed paper. Our bank contacted Investigations and Forensic Audit teams to alert of suspicions that our company may have been one of the victims of a large-scale payment diversion fraud.'

'A power surge destroyed one and damaged the remaining Uninterruptible Power Supply units (UPS) which control the power coming into the building. Two are sufficient for the building to run safely. The damaged unit was cannibalised to effect temporary repairs to the remaining units but parts were needed from Italy to repair all the units. Later the remaining UPS units failed which meant the building was running on power directly from the National Grid and so was vulnerable to power outages or surges which could destroy servers/telephony and any other equipment connected to the mains'

> What others say:
>
> Toft (2001) quotes Dr Brookes of Allied Colloids, following the devastating fire at their Bradford factory in 1992.
>
> "Never in my worst nightmare did I think that sort of thing could happen and I'm sure you think that about your organisation. But there it was – happening."

There are often warning signals prior to a major crisis, if only people are prepared to recognise them. Toft quotes two experimental studies that demonstrate that people faced with a problem often prefer to seek confirmation of a hypothesis they already believe rather than seeking to eliminate hypotheses that cannot be true. They seek to confirm rather than challenge their view of the world, and repeat successful actions rather than discover actions that are best not repeated.

"Failure teaches leaders valuable lessons, but good results only reinforce their preconceptions and tether them more firmly to their 'tried-and-true' recipes".

Toft identifies certain types of organisations at greater risk of exposure to this type of disaster. These organisations are characterised by high levels of secrecy, with little involvement and participation by personnel. Often there is also a regulatory conflict of interest where financial, environmental or safety legislation has driven an organisation to act in different ways.

Performance Management and Reward

It is often said that the performance management process within an organisation needs to encourage and reinforce any desired business change if it is to be a success. The extent to which the performance management process encourages or discourages appropriate risk taking behaviours is a measure of success of the process.

> What others say:
>
> "It is clear that incentives in general, and perhaps the compensation structure within a firm in particular, can reinforce or undermine a positive risk culture"
>
> **(IIF, December 2009).**
>
> "The CEO is directly responsible for creating a strong risk culture across the entire bank that promotes the taking of well-calculated risks without providing incentives for excessive or inappropriate risks. For example, if a bank rewards its people for generating loan volume with scant regard to credit risk, it has a weak risk culture and is courting disaster. Building a strong risk culture requires significant changes in the bank's management disciplines and value system that are beyond the reach of a CRO acting alone. It is simply not possible to have a strong risk culture unless the CEO makes it happen through forceful leadership".
>
> **(American Banker, 30 March 2012)**

Potential Approaches
So how could you go about this perfectly laudable aim in practice? What are the options and what might be the pitfalls?

Risk-aware objective setting
When setting or agreeing personal objectives, line managers and staff should discuss the nature of the challenges facing the delivery. The process should recognise the uncertainties associated with delivering easily on the objectives and provide for a degree of flexibility if they are not achieved due to unforeseen circumstances arising.

Ensuring that the management of risk is clearly and visibly linked to the strategic and business planning process represents best practice. Enterprise risk management is best operated as a strategic process, supporting business decision-making and aligning personal objectives with organisational goals. The performance management process for senior managers transforms these strategic plans into personal objectives linked to recognition such as salary increments and bonus schemes.

Staff would ideally propose and agree an appropriate approach to ensuring that the chances of delivering the objective are maximised. Line managers would agree to provide resources required by their staff to assist them in managing these risks.

This approach encourages SMART (Specific, Measurable, Achievable, Realistic and Timed) objectives to be set. The challenge is not to lose the message within a bureaucratic process that focuses on the numbers of objectives set out rather than on the quality of discussion generated.

Risk-linked objectives

Where managers have been defined as risk owners and have accountability for managing or controlling a specific risk exposure, this responsibility should be reflected within their objectives. These managers would therefore agree what mitigation strategies might be appropriate and define the resources they would require to be able to deliver this in practice.

This approach would ensure that these accountabilities are taken seriously and acted upon. At the same time their responsibility around risk ownership could also be reflected in their job description as a more permanent requirement of the role. When this is done performance objectives can be more aligned to specific details of actions required in the short-term to mitigate risk exposures.

Specific risk management related objectives assigned

Managers within the organisation who have a role within the risk management process should have targets set reflecting these commitments. Hence it would be appropriate that those responsible for parts of the corporate risk management and reporting process to have specific objectives set to reflect these commitments and responsibilities.

This approach would ensure that managers with accountabilities within the risk management process take these seriously. However because these roles have a recurring nature rather than purely being tied to the planning cycle, it might be more appropriate to ensure they are captured within the manager's role description. This has the benefit of ensuring that sufficient time and resources are allocated to these tasks as well as recognising the need for these skills within the role holder.

Incorporate a risk competency

Most performance management processes incorporate an evaluation of staff competencies in terms of how they approach delivering their objectives. There are various means of defining these within different competency assessment frameworks, but these might for example include analytical skills such as 'conceptual thinking', inter-personal skills such as 'strategic influencing' or even process skills such as 'concern for standards'.

Organisations might therefore consider developing a 'concern for risk' competency and incorporating this into their evaluation framework. This represents good practice within ERM by recognising that the management of risk is a skill of value to senior management. This would certainly drive engagement of senior management with the concepts of ERM.

'Concern for risk' might be defined as – "Ability to demonstrate a strong awareness of risk, how risk aggregates, how to communicate uncertainty effectively and incorporate risk into management decision making."

Attributes might include for example:

- Establishing monitoring systems to ensure adherence to policies and regulations;
- Creating and actively promoting a culture where there are high standards of risk management;
- Seeking information on risk and opportunity when making balanced decisions;
- Sharing loss or near miss information to help learn lessons and ensure controls remain effective;
- Ensuring appropriate rules and codes are in place to manage corporate exposures;
- Recognising the impact of uncertainty and taking action where appropriate.

This approach sends a clear signal that managing risk is as much about behaviours and culture as about process and objectives. If this was incorporated into a leadership model where 'concern for risk' was a desirable leadership, this behaviour would create a power alignment of human resources and risk management processes.

Managers may be asked to encourage and support managed risk-taking by their staff. It is clear that entrepreneurial creativity, innovation and challenge need to be generated when agreeing an individual's objectives.

But how can this be done in a way that ensures the best business outcome and develops the individual?

Compensation and Risk

Following the 2008 financial crisis, much attention has been given to the influence of compensation on risk taking behaviours. KPMG (2009) indicate that "the majority of Chief Risk Officers (CROs), risk professionals and other senior managers … acknowledge that the industry as a whole had an inadequate framework for controlling risk. They also admit that the prevailing organisational culture did not stop excessive risk taking, fuelled by a system of profit-based rewards that failed to protect the needs of depositors."

Historically, remuneration and risk management policies have not been aligned. The banking sector demonstrated the effect of incentivising staff to take significant risks to secure high returns without due consideration of the impact on balance sheet and long term reputation. The incentive schemes in many ways disenfranchised the risk function by removing any influence it might exert over risk taking behaviours.

Integrating compensation into an ERM framework implies recognising its role in signalling the importance of balanced risk taking in creating an appropriate risk culture.

The Walker Report (2009), although focused ostensibly on Banks and Other Financial Institutions (BOFIs), has had significant influence over corporate governance best practice and regulatory oversight for listed public companies.

> **Best practice: Walker Report recommendations**
>
> The Remuneration Committee should be "satisfied with the way in which performance objectives and risk adjustments are reflected in the compensation structures for the group and explain the principles underlying the performance objectives, risk adjustments and the related compensation structure"
>
> "Deferral of incentive payments should provide the primary risk adjustment mechanism to align rewards with sustainable performance for executive board members and "high end" employees... Incentives should be balanced so that at least one-half of variable remuneration offered in respect of a financial year is in the form of a long-term incentive scheme with vesting subject to a performance condition with half of the award vesting after not less than three years and of the remainder after five years. Short-term bonus awards should be paid over a three-year period with not more than one-third in the first year. Clawback should be used as the means to reclaim amounts in circumstances of misstatement and misconduct."

The implications are that long-term incentives, combined deferral of short-term incentives and clawback provisions where initial performance projections turn out to be over-stated, are all designed to provide more balanced risk-based performance metrics for senior management. Performance measures should also be linked to risks and their management. A key aspect of creating a healthy risk culture is therefore a performance management and reward structure that encourages and rewards appropriate risk taking.

The Walker report goes as far to suggest the Remuneration Committee should seek advice from the Risk Committee (or risk function) on the appropriate risk adjustments to be applied to performance objectives.

Implementation in Practice

The challenge with any performance management process is to sustain the message and ensure this is not lost within the process. Implementing any human resource process across a large organisation drives the need for transparency and consistency. In other words keep the process (and resultant paperwork or its on-line substitute) as focused as possible.

The example below firstly considers the key uncertainties associated with each target and encourages the line manager and staff member to discuss what is already in place to secure the opportunity created by the target or to avoid the risks inherent in achieving it. Secondly, what further might need to be done to secure this position, by whom and when, and using what resources?

Name

Category of Objectives/ Core Process	Objective(s)		Target Date

Uncertainties	Treatment and/or control measures		Key Performance Indicators
	Already in place	Proposed for improvement	

Figure 10.2 – Example of risk based objective setting

What others say:

"When companies reward reckless conduct, or results gained through any means, the risk management message becomes diluted. Rewards for all employees at all levels, from the shop floor to the CEO, should depend on whether their actions comply with the organization's strategy and risk appetite. Further, the evaluations of CEOs, CFOs and other senior management must include their ability to promote appropriate risk behaviour throughout the organization and make appropriate risk-based decisions.

Rewarding inappropriate conduct sets a bad example for how employees should conduct themselves. It also sends the message that the company does not value risk management, and that may discourage employees from reporting unethical or unwise conduct. In addition to setting appropriate standards, organizations must create formal working channels and procedures for reporting incidents, and ensure that confidentiality is upheld". (Business Week, 12 May 2009)

Awareness and Communication

Creating a risk culture means that staff are aware of risk and risk management practices and that these are transparent and discussed regularly. Inevitably there are many issues taking place within an organisation at any time and those driving a risk culture change programme need to 'fight for voice' in terms of staff and management attention. Repetition and reinforcement of the same key messages over time is an inevitable part of the equation.

Selling the benefits of an ERM programme within any organisation is a critical aspect of implementing any change programme and risk management is no different. 'How' and 'When' the risk management project is implemented is as important, if not more so, than 'What' is achieved from a technical perspective. This needs to consider the specific nature of an organisation in terms of:

- business strategy and objectives.
- culture and history.
- geographic footprint.
- industry sector.

The knowledge and feeling of support is essential to motivate the practical action required to support successful risk management programme implementation.

Such approaches are effectively prioritising communication efforts on those with most influence over the potential success of the programme as a whole. An internal communication plan is important to identify how risk awareness can be built and sustained. This implies making a conscious and sustained effort to make risk and risk management visible. To this extent part of the process implies developing an understanding of key stakeholder groups that are being targeted. Stakeholder groups will vary between organisations but might include for example:

- board and senior management
- specific functional management
- particular regional groups
- or simply all staff within the organisation.

Stakeholder analysis allows specific individuals to be targeted in terms of influencing strategies. It recognises that in large organisations, there are some individuals who are more influential than others, and by targeting them, it is possible to indirectly influence much larger groups. Hence the focus is on identifying the attitude of key influencers within the organisation on a spectrum from 'Unsupportive', through 'Uncommitted', to 'Supportive' and ideally 'Advocates'.

It is unrealistic to expect all senior managers to be fervent supporters of risk management. However some managers who are unsupportive could be highly disruptive to the success of any risk management programme implementation. The aim here would be to minimise their resistance.

This analysis can be used to help shape communication packages for the different target groups. One example is called a 'Know, Feel, Do' model of communication:

- what do we want them to KNOW?
- how do we want them to FEEL?
- what do we want them to DO as a result of the communication?

The stakeholder approach can be extended to include key external stakeholders. Communication and awareness is equally important for customers, shareholders, investment analysts, credit rating agencies or regulators.

A number of platforms or communication vehicles might be available. Generally it is wise to adopt a mixed approach, to retain interest and 'freshness' of messaging. Constantly looking for new ways to get key messages across is important.

Techniques for communicating on risk might include:

- internal staff newsletters and magazines
- intranet websites
- blogs and other internal information exchanges
- banners, posters and 'risk management' week campaigns
- competitions and awards
- handbooks and information leaflets
- 'train the trainer'

One strategy adopted successfully by organisations is to make a strong and explicit link between risk awareness and the organisation's corporate values. Making the link to corporate values is a means of building a strong link into corporate agenda. A study of corporate value statements has shown that they generally contain aspects from those listed below:

- Integrity – Doing the right thing, trust
- Courage – Facing the truth and acting decisively
- Empathy – Listening, showing respect, showing we care
- Motivation - Aiming higher and delivering
- Teamwork – Working together
- Diversity – Celebrating difference

In some cases, these values are in tension. It is not possible to deliver 100% percent on all of them at all times. A balance may need to be found between, for example, Courage and Integrity. This represents in many ways the risk culture balance that is being sought – how the organisation resolves paradoxes and finds the right risk/reward balance. Linking risk management programmes to corporate value statements is a powerful means of embedding risk awareness within the culture, particularly through induction training.

Unsupportive (negative response)	Uncommitted (neutral response)	Supportive (positive response)	Advocates (leadership role)
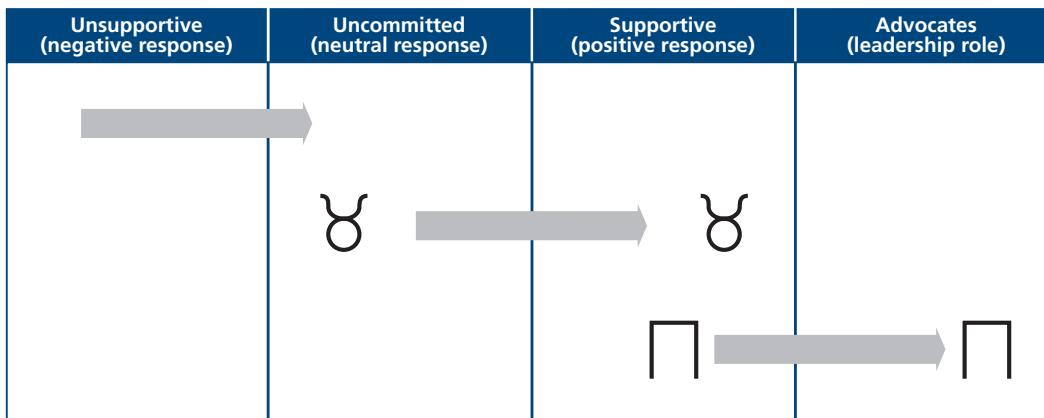
Figure 10.3 - Example of a stakeholder engagement analysis

What is the best means within your organisation of creating a sustained focus on the management of risks?

Learning and Development

How the individual goes about acquiring the skills to become competent in driving forward good risk management practices is a challenge. At the individual's level, this will be around personal development plans. While at organisational level, these aspects will need to be captured in the organisation's risk framework and most importantly in the overall learning and development strategy for risk management.

The nature and structure of an appropriate training programme is in itself a factor in the current organisational culture. It is likely that a range of activities will be needed and that these will also change with time, as the culture matures.

An example of a risk management training programme structure might include:

Type of training	Induction training	Risk champion training	Townhall / Lunch and Learn sessions	Management team presentations	Director training	
Key aspects of content	Short input on joining embedded into corporate programme. Typically 15 minutes, explains what is expected of all staff.	A series of workshops and/or teach-ins for members of staff who have roles within the risk management process. Often they are described as risk champions	Short open walk-in sessions open to staff at all levels on a topic of relevance or interest in risk management. Maybe part of wider programme run by Learning and Development.	Presentations or inputs to a range of work-groups at differing levels as part of an ongoing training and communication programme.	Targeted training for new and/or existing non-executives to ensure they understand the risk management framework and risk culture. This can be built into either one to one sessions or included as part of wider board training days	
Target	All new staff	Risk champions within the business	All existing staff	Various business unit and functional counterparts	Non-Executive Directors	

To be effective the usual approach adopted is to combine a mixture of the approaches outlined. It would be unusual to adopt all the approaches concurrently. The exact choice of techniques would depend on the current state of the risk culture, the overall change management objectives and the scale and resources of the organisation. Case studies of other organisations' successes and failures are a useful vehicle for communicating key points.

A strong link exists to competency frameworks often used within performance management processes. For example a 'concern for risk' competency, provided this was driven top-down would actively encourage managers to seek, develop and demonstrate risk management skills.

When managers understand that demonstrating a 'risk awareness' competency in how they deliver their objectives is what is expected in moving into senior management roles, then demand for risk management training is very likely to be significantly encouraged.

What would be the right mix of learning and development strategies required within your organisation?

A competency for risk - This could be defined as:

"Awareness of the impact of uncertainty on decision making and understand the importance of evaluating risks as part of decision making. Ability to weigh up alternative strategies, considering short-term and long-term implications as well as the balance of risk and reward. Maintaining a positive and open attitude to risk taking based on informed judgements. Willingness to take calculated risks in order to achieve business benefits, whilst managing the risk issues involved. Willingness to challenge others and question positions being taken on risk."

	Formal training courses	e-learning courses	Technical training
	Many organizations run ½ to 1 day training courses on risk management internally as an overall programme for equipping staff with a specific risk management role to ensure they are confident and capable of fulfilling this role in a manner consistent with the organisation's processes and culture.	Computer-based or e-learning is an efficient means of delivering basic facts to staff and is a cost-effective means of demonstrating this has been done across an organisation, particularly in highly regulated environments where evidencing to a 3rd party is important	In-depth technical or professional programmes for full time risk management team members.
	All staff with a specific risk management role	All staff (within certain areas)	Risk function members

Table 10.2 – Risk management training options

Case Study:

At Royal London, the UK's largest mutual life and pensions provider, we have always sought to embed effective risk management in the way we do things. A strong risk management framework has contributed to our employees making decisions that make both financial sense and benefit our customers, members and partners. Within a financial services business, balancing both of these aspects alongside being innovative and progressive means that we have needed to ensure our employees have the learning and development they need. We have had a risk management learning programme for a number of years, and the advent of the EU directive on Solvency II and the appointment of a new CEO has seen this programme go up a gear. The group continues to invest in learning activity as we seek to establish the highest practices around risk and capital management and a risk management culture.

The programme we have in place operates at different levels to encompass all of our employees, up to and including our board. This starts with the on-boarding of new employees, who all receive risk related training relevant to their role. Roles and responsibilities relating to risk are set out in role profiles and these along with risk specific objectives set the context for this development. For new managers this includes risk workshops and all our employees learn about risk appetite and our approach to managing risks through e-learning. Non-Executive Directors have a detailed development plan, which starts before they join with tailored packs about our business. On joining, they receive one-to-one information and training sessions from senior managers on a range of topics. On a regular, often monthly, basis the board receives presentations or papers on specialist topics covering governance, risk management and capital management practices. Internal specialists lead these sessions with external consultants being used frequently to bring an external perspective.

Elsewhere in the business, all employees including senior management take mandatory risk e-learning annually, and this is an element within our business scorecard and therefore factors into remuneration decisions. We have also delivered a range of internal training sessions, with a focus on those who have significant risk management responsibilities, including Actuarial, IT and Finance. We have tailored these sessions so that they meet the needs of different audiences and, in addition, run open forum 'breakfast/lunch and learns'. These training sessions have proven popular across all our locations and helped us to get risk related learning and messages across large audiences in an interactive and cost effective way.

The group learning and development approach is closely aligned to its performance management process. This means we can be confident that our employees have the right knowledge, skills and behaviours to carry out their individual roles. This includes supporting our employees in taking professional qualifications and in maintaining continuous professional development.

Risk Culture Dashboard

Korn Ferry Institute (2011) advocates that boards need to create balanced scorecard approaches to risk where risk culture is given equal consideration alongside 'hard numbers and risk models'. There are strong arguments for developing 'risk culture dashboards' alongside more traditional 'key performance indicators' (KPIs). It gives prominence to the issue of embedding risk management into the culture of the organisation. It provides a means of making the less tangible but equally important aspects more visible to senior management.

Griffin (2012) suggests that the dashboard would need to include two types of measures, behaviour-based measures capturing observable conduct of staff and process-based measures recording progress with activities designed to influence behaviour change.

Korn Ferry Institute (2011) further suggest this could take a wide range of forms, to build up a risk sensitivity including:

Traditional measures:

- Employee retention rates
- Misconduct issues

Non-traditional measures:

- Blogs, wikis and other chat rooms
- Outcomes of staff engagement surveys

Another approach to creating a culture status dashboard is to seek to measure the level of risk management 'embedding'. Embedding can be an elusive concept to define in practice. One way round the difficulty of defining and demonstrating this concept is to use a series of 'seven tests' that can be applied to the application of risk management in the organisation. In each case, it should be possible to point to tangible evidence that the behaviours and approaches are in place.

The seven tests fall into the 'SODCIVS' model.

S is for Sponsored – This is all about ensuring that there is executive and board level support for ERM and this is maintained over time. Leaders should challenge, be demanding, not just say the right things occasionally. Evidence of embedding would include board and management committee minutes, staff magazines, websites and business plans.

O is for Owned – If someone is a risk owner, they should positively feel the accountabilities of ownership and this should be linked to their performance management and reward. This could be evidenced through performance reviews, personal objectives and remuneration committee minutes.

D is for Decisive – ERM is all very interesting but if it does not inform significant management decisions then it is largely window dressing. What was the last decision that was actively influenced by risk information? The most obvious source of evidence would include minuted management decisions but also the papers supporting business proposals.

C is for Communicated – you can't embed things if they are a closely guarded secret. People need to talk about risks. It needs to be on the agenda and openly and transparently discussed. Clearly communication takes many forms, not all of which are open to evidence, but examples of evidence might include cascaded communication, intranet sites and meeting minutes.

I is for Integrated – 'risk management' is not a separate industry or in some cases a function. It needs to be a core discipline integrated into day-to-day business processes and activities to gain any long term traction. Is risk considered as part of the business planning, budgeting and strategy setting cycle, and can this be evidenced? How is risk factored into new product launches or acquisition due diligence?

V is for Valued – do management value the outcomes such as risk information and business impact analysis reports? Do they take pride in the quality of the process and outcomes? Are they impatient to drive improvement and make it even better, or do they want to get through that agenda item as quickly as possible? In some ways this is the 'golden test'. If this test is satisfied, it is likely the others have had to be addressed to some meaningful level. Evidence might include the extent to which management is constantly driving and demanding improvement in risk management information and support.

S is for Sustained – Clearly we need to practice what we preach and ensure our processes are resilient to loss of key people. A succession plan for all key role holders in the risk processes would be a good starting point in this case but also sustained training and development programmes play an important role in achieving this goal.

The 7 Embedding 'Tests'

Test	Is Risk Management	Meaning
1	Sponsored	Leadership clearly sponsor and challenge activity
2	Owned	Ownership accepted and acted upon at all levels
3	Decisive	Influences key decisions
4	Communicated	Outcomes are visable and actively discussed
5	Intergrated	Part of day-to-day core processes and procedures
6	Valued	Pride and commitment drives continuous improvement
7	Sustained	Robust, reproductable and not dependent on single individuals

Figure 10.4 – The seven embedding 'tests'

It is possible to test embedding of the framework by breaking it into a small number of key elements that need to be adopted and implemented in order to start to drive a consistent risk culture. Against each of these elements divisions and functions can be scored on a 5-point scale shown in Figure 10.5. The scale can be fairly simplistic because it relies on management judgment and accountability and the seven tests to reach meaningful conclusions. Clearly judgement needs supporting with evidence.

Level of embedding and criteria	
5	Approaches to managing risk are fully embedded in day-to-day business processes and strategies.
4	Approaches are adopted and improving but not fully embedded.
3	Implementation has been completed in key areas.
2	Implementation is planned but not delivered.
1	There is a level of awareness or understanding but no action has been taken.

Figure 10.5 – Embedding criteria scoring

This results in an embedding grid for the organisation, providing a scorecard that can be tracked over time. This grid can be produced as a top-down assessment with each division or function being scored by the risk function to gain a 'baseline' of where the organisation was starting from. The aim therefore is to plot a course for the organisation as a whole. This grid forms the basis of establishing an embedding plan for the organisation in much the same way as the 'harder' aspects of the framework have an implementation plan.

Because this process is all about ownership and embedding, subsequent evaluations of 'embeddedness' could be completed by management itself through a self-assessment questionnaire, providing evidence for their evaluations. By periodically repeating the embedding grid assessment and playing it back to management and boards a continuous improvement approach can be encouraged.

Ultimately these dashboards and evaluation grids are all means of seeking to measure and make the 'cultural health' of the organisation more visible through reporting.

Conclusion

What should now be clear from our discussion of a range of aspects of organisational risk competence is that any approach to changing risk culture requires to be carefully planned within the context of the overall ERM Strategy.

There are a number of techniques that can be used to drive forward the adoption of risk management and hence embed a risk culture. The 'recipe' and mix of tools adopted within an organisation will very much depend on the current situation. There is no perfect 'recipe book' answer to how these elements are combined to address the current culture and maturity of the organisation. That relies on the evaluation completed as outlined in Chapter 8.

The key aspects to consider are the prevailing organisational culture and the maturity of ERM implementation.

Creating a culture where disclosure of risk events is encouraged is an important starting point. 'What can be measured can be managed' and in many ways it is the first step in recognising that 'risks do happen to us and we need to take this on board'.

Accountability is a key aspect in ensuring that management at all levels act upon this information and make the most of these insights. These approaches can be reinforced by effective performance management and reward mechanisms. An effective culture is one that enables and rewards individuals for taking the right risks in an informed manner. It is not about being risk averse. However the opposite is also true: as has been seen in the run up to the financial crisis, inappropriate reward schemes can create direct and systemic risk.

Finally in reaching out to the wider organisation and seeking to raise the general risk awareness levels communication and training programmes have a key role to play. Risk professionals must recognise that this requires strong change management skills within their teams. Clearly defined goals are required for these programmes to ensure that they deliver benefits within the overall culture change programme. Goals imply that performance should be tracked over time, and hence a move to developing risk culture dashboards.

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Chapter 11: Risk culture in practice

John Harvie and Jacqueline Fenech, Protiviti

Our supporters, Protiviti, use this chapter to set out some insight, conclusions and guidance on the role of risk culture in organisational behaviour, bringing together many of the themes and observations from throughout the project.

Foreword

"Risk culture can be defined as the norms and traditions of behaviour of individuals and of groups within an organization that determine the way in which they identify, understand, discuss, and act on the risks the organization confronts and the risks it takes." IIF

Introduction

These days it feels as though we read about another failing in corporate standards almost every day. Maybe it has always been the case but it appears that when the dust settles and the enquiry is over the causes of the failure boil down more often than ever to culture. The term risk culture is banded about by regulators, politicians and the media. Why does it appear so hard to get risk culture right and what does it look like when we do? This paper explores these two questions and offers our perspective on what an effective risk culture looks like in practice.

1. Risk is good

Surely taking risk is to be encouraged. As T.S Eliot puts it: "Only those who will risk going too far can possibly find out how far one can go."

We need firms to take risks, banks to lend us money, insurers to underwrite our risks, oil firms to explore for and produce oil, construction firms to invest in buildings; without risk our economy cannot function. Over centuries it has been those that are prepared to take risk that prosper. So taking risk is positive. We want and need decision makers who assess and take risks and need to promote cultures within business that encourage and support this. And yet there is clearly a line that we cross at our peril. Such a line may in hindsight appear obvious but at that crucial moment when we make that key decision we either choose consciously to ignore or just don't see. In crossing this line we feel that the actions that were once encouraged and rewarded are now vilified. What has changed? Finding this line and ensuring that it is not crossed is clearly very challenging.

Culture is an environment, a Petri dish in which certain behaviours and characteristics are allowed to flourish or not.

What causes us to err are the decisions we take, our assessment of the risks involved and the extent to which the culture we inhabit either encourages or discourages us from making the right decision.

Not all the decisions made in the course of our working lives can possibly be the right ones. The losses and gains that banks, insurers or any other firm incur on a daily basis are a part of normal business and a culture that supports us, allowing us to make the mistakes and learn, is seen by most as positive. A culture that encourages or does not inhibit decisions to be made where laws are broken, where there is fraud or deliberately destructive acts, is clearly a culture that should not be promoted. It is in the vast area between these two extremes that our line lies.

The line is sometimes arbitrary and we only know we have crossed it when we see it in the rear view mirror. Once crossed most people will reverse and scurry back to the right side, but others maintain their course. So what are the underlying reasons for our failure to stop before we cross the line or failure to return once we have? What drives the difference in behaviour, and what are the aspects of the cultural environment that either encourage us or fail to prevent us?

Sometimes what constitutes acceptable or unacceptable risk is not well defined. How many organisations have a clearly defined risk appetite statement, that is aligned to the business strategy and that is embedded and understood at all levels in the organisation? In many organisations the risk appetite statement is something created at the beginning of the year and put on a shelf. How many contradictions and paradoxes does the risk appetite statement generate when translated to the sharp end of the business? Without this clarity the people making decisions will not understand the risks they are running nor their roles and responsibility in respect to those risks. A culture where concern for these aspects of business management is disregarded, seen as unimportant and not worth investing in, is clearly more likely to be an environment in which problems develop.

We all have behavioural biases that affect the decisions we take. A culture where these biases go unrecognised and unchecked or one where they are encouraged is also likely to be one where problems develop. The biases that exist in human behaviour have been studied extensively by psychologists. There are many types of bias that affect the way we make decisions and make us more or less prone to take risk:

- Self interest: A bias in favour of our own self interest. A culture that encourages individuals to only consider their own interests, either actively or by failing to promote an alternative, can lead to unacceptable risk. The effect is magnified when coupled with a belief that if the worst were to happen the impact will fall disproportionately on others. This is the argument in favour of a partnership versus a public limited company for high risk banks. If there is a direct relationship between the consequences of a decision and our own self interest then the culture is likely to promote more care in making the decision.

- Group think: The team involved in making the decision has become isolated. A culture that rejects external perspective and actively discourages dissension is likely to generate more group think behaviour which in turn can lead to poor decision making and increased risk.

- Anchoring: This bias is used extensively in the home improvements industry. When we are initially quoted a high number the discounted number suddenly sounds much better. When we look at the numbers associated with a decision are we sure we know where they have come from and what their basis is? A culture that does not place sufficient emphasis on the quality and completeness of data, and where decisions can be made without the requisite checks, is likely to lead to instances where anchoring is having an effect on the decisions taken.

- Sunk costs fallacy: In for a penny in for a pound. We have seen this effect happen in trading environments on a regular basis. Attempts to recover from an initial loss by placing an ever bigger bet until things get out of control. A culture that does not tolerate mistakes, where the power of audit and process review is suppressed and where whistle blowing is discouraged allows the sunk cost fallacy to continue unchecked.

- Over confidence: "I know what I am doing; I have been doing this for years". Many business cultures encourage overconfidence. Those that do well are rightly applauded and rewarded which in turn boosts confidence. In high risk environments perhaps the culture should also promote humility and self awareness.

- Disaster neglect: If those who were manipulating the LIBOR rates had really understood the disastrous consequences of their actions would they have behaved in the same way? Who knows? But the point is we often fail to recognise the worst case until it's too late. A culture that promotes personal responsibility is perhaps likely to mitigate this bias.

How well aligned are our incentives with our risk appetite, how clear are the sanctions associated with going too far? Again pulling from the world of psychology there is clear evidence that firms have become far too dependent on simple monetary incentives as the principal means of creating the right behaviour and that this simply doesn't work. We have forgotten the much more fundamental, intrinsic motivators that really get us out of bed in the morning and in some corporate cultures even consider these to be a sign of weakness, leading to a "greed is good" mentality. Incentives are an important determinant of culture and can be one of the key levers in either encouraging or discouraging the behaviours described above.

Equally important is our approach to sanctions as they also shape culture. A culture where sanctions are left unclear or where there is a belief that they will never be enforced is likely to promote high risk behaviours.

Last but not least is our use of blowing the whistle. There is clear evidence that those responsible for governing organisations have in some cases become complicit in high risk behaviour. It is self evident that a culture that discourages whistle blowing is likely to create an environment in which high risk behaviour is tolerated. Where strong personalities define the culture and fear is a strong element it is obviously more difficult for high-risk behaviours to be challenged.

2. The usual suspects

When things go wrong our immediate reaction is to turn to the rule book: "We need new laws, new regulations, new policies and procedures to prevent us from acting this way again." Yet it is clear that in thousands of years of human endeavour we have still not created the rules to cover all eventualities and no matter how many rules we create the problems with culture still occur. Why are rule books, codes of ethics, policies and procedures not enough?

Here are five problems with rules:

- Mechanics not dynamics - Rules can only ever deal with the mechanics of business, they cannot on their own influence the beliefs and behaviours that create the culture of the organisation.

- Understanding the rules - Rules can get very complex. The legal profession train for years in order to understand and interpret, normally, just one aspect of the law. However, many in key decision making positions within companies do not see understanding and interpreting the rules as their primary role. Even when training is provided we cannot be certain that individuals have fully understood and embraced the implications of the rules on their work.

- The loss of wisdom, the ticking of boxes - Rules can create a "tick box" approach. "As long as we are following the rules, that's enough." Rules remove an element of responsibility: "It's not my fault, I was just following the rules."

- Gaming - Once a rule is established it is human nature to work out how to take advantage of the rule. The more complex the rules the more opportunity for ambiguity and for advantage to be sought. The rules that govern our tax system are perhaps the most gamed rules in existence and certainly in the news just at present. Whole industries have developed to work out how to game these rules and companies and individuals spend considerable sums on this practice. As with the tax system we can never hope to write a set of rules that eliminates gaming: we have to rely on culture to limit its impact.

- Maintaining the rules - Rules have to be maintained. The more rules there are the more of a burden this becomes. If the organisation is global it is not just one set of rules that need to be maintained but many for every territory in which it operates.

So it is evident that to be effective rules need to be supported by the culture in which they operate. In certain cultures rules might have the opposite effect to the one intended. The next section deals with 10 key elements to create an effective risk culture.

3. The elements of an effective risk culture

Through our experience across many industries we have crystallised the key elements that enable organisations to develop and sustain an effective risk culture. Working with some of the world's leading benchmark companies we have been able to build up a picture of what the leaders in the field of developing an effective risk culture do differently. Despite the amounts spent on risk management by the financial services industry over the last 10 years we find that as a group their approach to risk culture is inadequate. As one would expect the leaders tend to be those dealing with physical risk particularly where loss of life is a direct consequence of things going wrong. The transport industries, mining, power generation and distribution and oil and gas are at the forefront.

Here are 10 things that leaders in establishing an effective risk culture do differently:

1. Focus on the dynamics (the behaviours and beliefs) as well as the mechanics (governance and rules).

2. Consciously manage culture rather than taking a "go with the flow" approach. Only by being aware of the culture within which they operate can leaders actively harness the potential that culture presents (as well as mitigating some of the challenges).

3. It is not just about "tone at the top" but also about tone in the middle and at the bottom of the organisation. So monitor the tone at all levels.

4. Train management to be aware of and to test for behavioural bias in key areas of decision making. Ensure that the organisation is designed in such a way as to facilitate this.

5. Align the management of culture with wider initiatives such as employee engagement and people strategy. Ensure that the risk dimension of culture is given equal priority to other aspects of culture.

6. Provide training and support for managers and leaders. Being aware of the culture does not come automatically to everyone and the key influencers of culture are the line managers who have a direct impact on the broader population.

7. Don't shoot the messenger (or whistle blower) who identifies inappropriate behaviours. Strengthen the hand of those whose job it is to police the system. Ensure that corporate governance is strong and that functions like internal audit and risk management have the skills and experience needed to not just review the financial aspects of the business but the operational aspects as well. Make the measurement of culture part of the regime and be prepared to act where it is evident things are going wrong.

8. Underpin the culture with appropriate incentive and reward systems and demolish inappropriate ones. Don't assume that people are motivated to take the most desirable course of action by the application of carrots and sticks alone. Recognise that, particularly in undertaking definitional tasks, intrinsic motivation is more likely to generate the desired behaviour.

9. Engage the board and Executive Management jointly and severally in agreeing risk appetite. Don't assume that risk appetite is static. Remember that it needs to be linked/aligned to business strategy and therefore needs to be dynamic. Make sure that the risk appetite is understood at all levels of decision making in the organisation and that the implications of the risk appetite on the decisions being taken is fully understood.

10. Recognise that rules and regulations can only go so far in protecting the organisation and may become counterproductive when applied without judgement. So give staff the autonomy to act, the ability to get better at something that matters and allow people to apply their wisdom.

4 Building the right risk culture

Firms frequently express a concern that establishing an effective risk culture means suppressing the dynamic and entrepreneurial nature of their business. Our benchmarks demonstrate that the reverse is true. The cultures that drive long-term value for customers and shareholders are those that are effective at managing risk. The challenges that banks and some insurers have faced over the last few years has demonstrated that a failure to manage culture can destroy value on an enormous scale.

It is important to recognise that culture cannot be changed quickly; it is a journey that requires continuous and consistent management attention. If there is a concern about a company's culture or it is an area that has not received sufficient attention, the first step is to define the behaviours and beliefs that are desired and devise a means of measuring the status quo. There are various techniques available to achieve this; the most commonly used is a self-assessment through employee surveys. We would argue that this is not sufficient and that some form of external benchmark is necessary to give a relative measure of where a firm stands and to pinpoint areas for remediation, as well as highlight strengths that can be harnessed.

Where remediation is seen as necessary, creating the necessary change needs to be led from the top. When dealing with something as ingrained and personal as an individual's beliefs and behaviours any project is going to meet heavy resistance, explicit or otherwise. Those engaged with delivering the change need the courage of their convictions and the perseverance to see through change that is likely to be painful and disruptive.

Endnotes
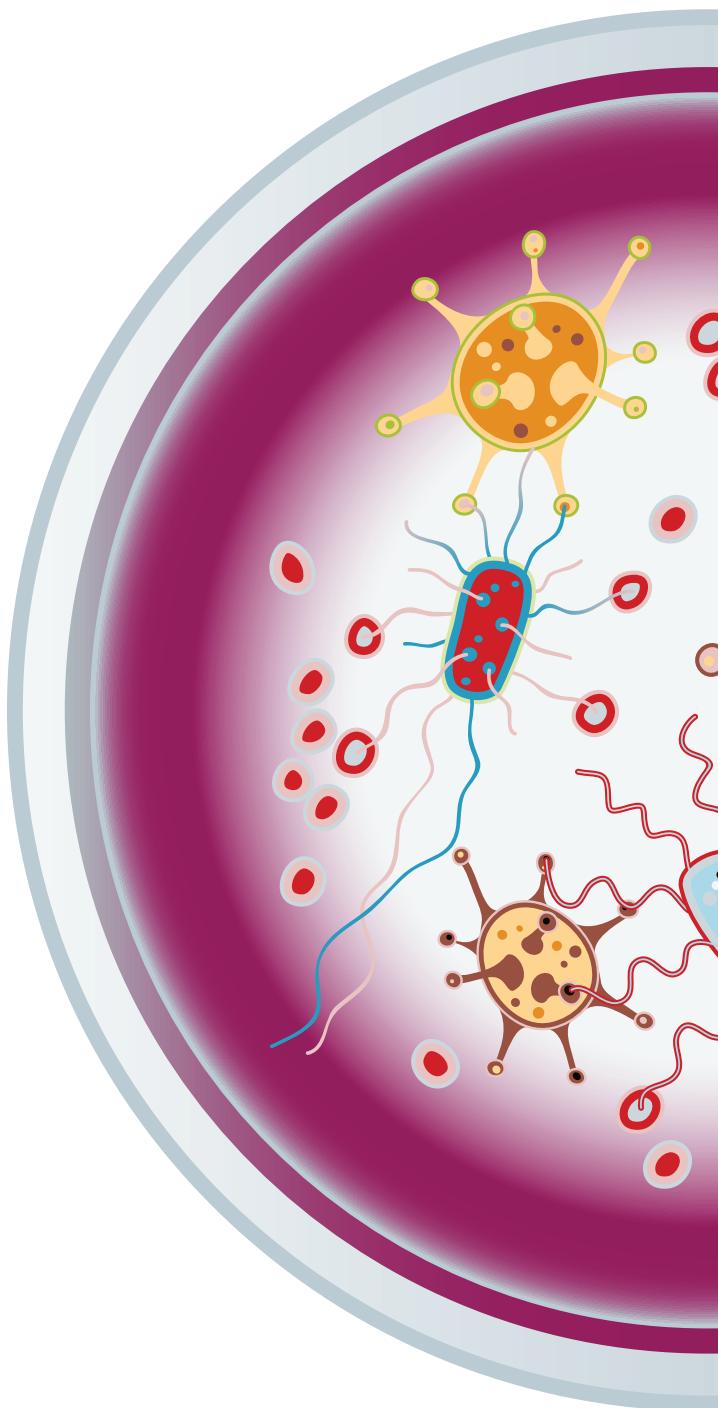
In summary then, taking risk is fundamental to growing a business, but it can also sometimes destroy it. The line between these two extremes is difficult to define. Rules alone will not prevent straying across this line. Rules allied with the right culture will together better ensure disaster does not strike. From our experiences we have identified 10 elements that generate a culture that encourages the right level of risk taking. Putting these elements in place is a journey that like any major change needs to be mapped out, be led from the top and requires determined effort from those involved.

"The bottom line for leaders is that if they do not become conscious of the cultures in which they are embedded, those cultures will manage them. Cultural understanding is desirable for all of us, but it is essential to leaders if they are to lead." Edgar Schein, Ph.D. – Professor at MIT and a recognized authority on Organisational Culture and Leadership

"The cultures that drive long-term value for customers and shareholders are those that are effective at managing risk"

References

Institute of International Finance (2009) Reform in the Financial Services Industry: Strengthening Practices for a More Stable System - Risk Culture Appendix, December 2009

Chapter 12: Practical guidance: a ten point plan for implementing risk culture change
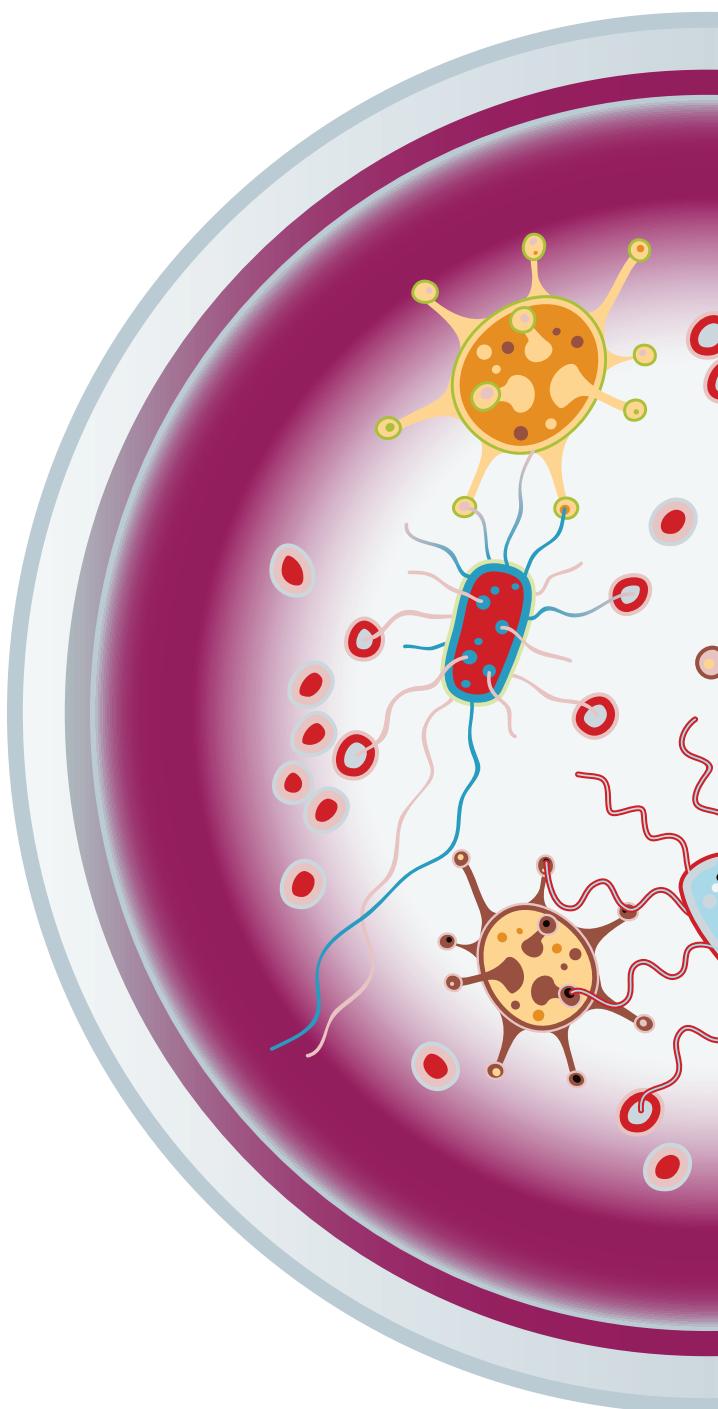
Keith Smith, Alex Hindson

This chapter answers the question 'OK, so what do I do next?' and gives some guidance on implementing risk culture change.

Risk culture and change management
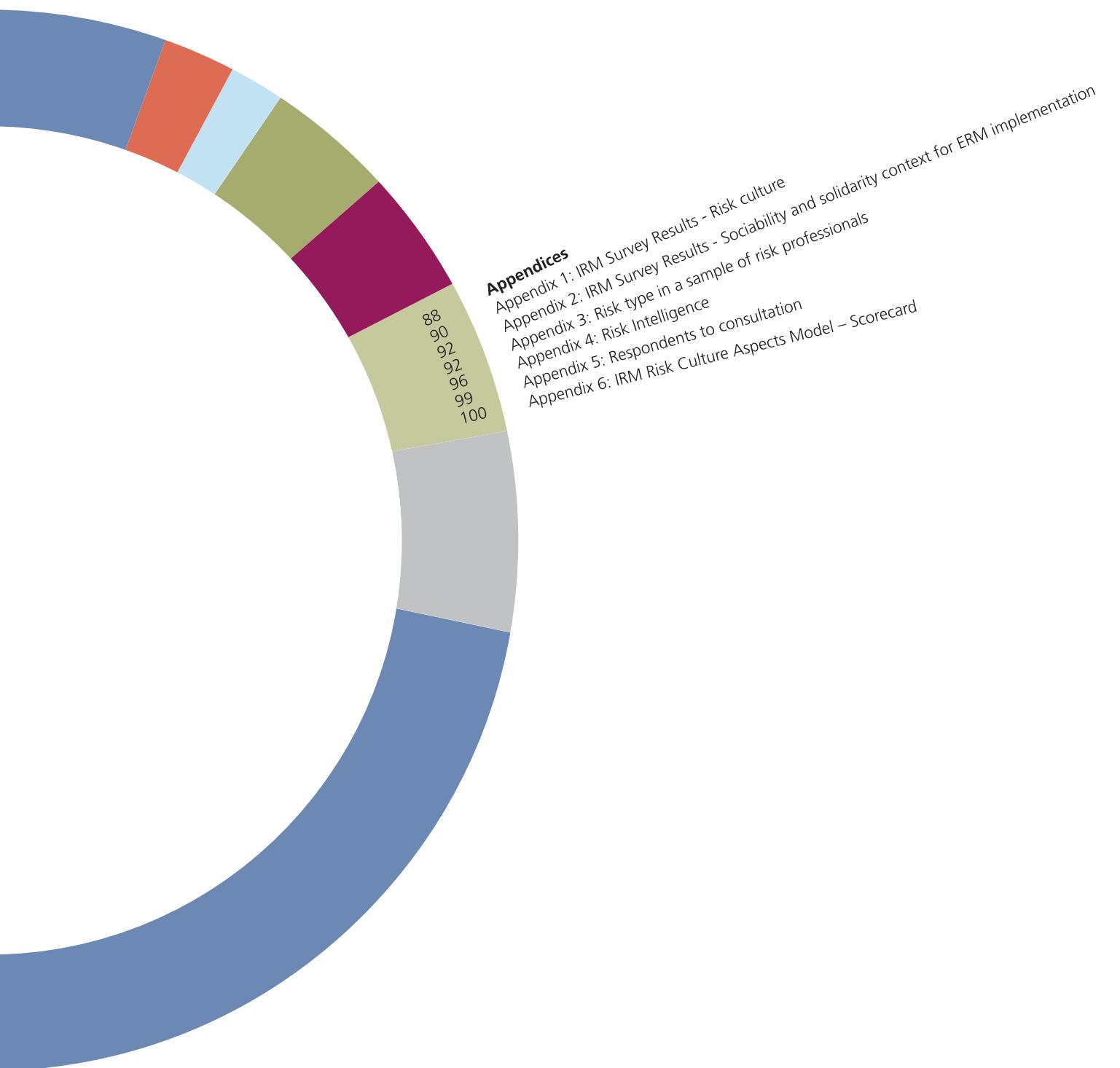
This guidance document has demonstrated that there are a number of tools available to risk professionals for evaluating, planning and implementing risk culture change programmes. The programme itself however requires planning and organising. Using change management techniques of various types will prove successful. However, in order to help structure an approach some practical guidance is offered on how this could be done, although this is not to say this is the only way this could be delivered successfully.

1. **EVALUATE** the current risk culture. Use at least one and preferably more than one of the available assessment methods to understand the risk culture you currently have. Remember, each assessment method used will increase understanding and reduce diagnostic errors.

2. **CONSIDER** how many risk cultures might be present. Make sure you understand all the cultures present including sub cultures and look out for hidden cultures.

3. **ANALYSE** the findings of the evaluation. Categorise the information you collect. The Risk Culture Aspects Model may provide useful categories to use, but consider using other categories that fit your organisation's type and purpose. The categorised information should help deepen your understanding and allow generalised statements to be made about the culture. Is it focused, is it sociable, is it strong, is it fractured etc?

4. **DEFINE** a target for the desired future risk culture. Give careful consideration to the type of risk culture you feel is required (the target risk culture). If there are clear drivers such as regulatory change, write them down. Describe what this new risk culture may look like in terms of people's interactions, artefacts that would exist, the type of stories that would characterise the organisation and behaviours you would expect to see in people. How does it differ and why is that better than what you have found currently exists?

5. **CONSIDER** the Consequences of the required culture change. Give consideration to that new target culture:

    a. Is it achievable without too much change (give due consideration to other things that may be underway in the organisation)?
       i. Remember culture change is unsettling; you may lose some of the staff you would rather keep.

    b. Do you have enough depth and width of understanding in both the current and target cultures to be able to see the end to end change plan that would be needed? If not, go back to the assessment phase.

    c. Do you have access to enough resources to meet the scale of change required?

    d. Do you have the organisation's backing for the proposed scale of change?

    e. Will it satisfy the drivers behind the change within the required timeframe?

    f. Will the new culture give rise to subcultures or fractures that may be counterproductive?

    g. Are there any special considerations such as internationalisation issues to address? If so, set them out so they may be explicitly addressed in the plans.

    h. Use the materials and tools provided to ask what the new culture could deliver in terms of risk management.
       i. Will it help drive risk awareness and respect for risk management?
       ii. Will it make risk identification and risk workshops easier to manage?
       iii. Will it foster a more constructive environment in which to deliver risk responses?
       iv. Will it lead to more depth in the management of risks?

6. **SCOPE** out a risk culture change programme. Use Young's Six Levers model to guide you towards firm achievable actions. Give consideration as to what implementation methods would work in your organisation. Training, media, group work, 'culture envoys'? What needs to happen at each of the cultural levels?
    a. Manifest
    b. Strategic
    c. Core

7. **RISK ASSESS** the culture change programme. List what barriers may exist, what risks would need to be managed and scope the scale and type of resources that would be required. Give due consideration to issues arising from question 5e and 5f in particular.

8. **PLAN** how this will be delivered in practice. Develop the above into a structured implementation plan and execute that plan.

9. **EVALUATE** progress as the basis of continuous improvement. Retest the culture regularly to make sure the outcomes are as expected. If not, be prepared to rework your plan.

10. **RECOGNISE** that the journey is as important as the destination in the forming a risk culture. At all times, carry the people with you and question the ethics of each step to ensure this is a rich and rewarding process for the organisation and its members.

Appendices

Appendix 1: IRM survey results - risk culture

Survey details and demographics

This survey was conducted online by the Institute of Risk Management during April and May 2012. The purpose of the survey was to gather information about approaches to understanding and addressing risk culture and to test the IRM Risk Culture Aspects Model.

109 risk professionals responded, the sample being 64% from the United Kingdom, 16% from North America and 23% from the rest of Europe. The industries represented include Financial Services (47%), Public Sector (13%), Professional Services (7%), Leisure & Hospitality (5%) and Not for Profit (5%).

Part 1 – approaches to understanding and addressing risk culture

Programme:
Only 12% of organisations reported having a specific programme focused on addressing their risk culture. The majority addressed risk culture through a wider risk programme (39%) or organisational change programme (21%). However 27% of respondents indicated they were not addressing risk culture through any programme of work.

Approach to analysis:
There was no consensus among survey respondents on how to approach the analysis or evaluation of risk culture. The most popular approach is an informal evaluation by management (26%). At the same time 27% of respondents indicated no evaluation had been completed or planned. One respondent forcefully indicated: "an audit or survey of culture will not reveal behavioural issues on key issues".

Sponsorship of risk culture programme:
This was seen as a task for the risk function (27%) of the chief risk officer (or equivalent – 21%) although 23% indicated they had no sponsor in place. The human resource function was not seen as leading this type of programme.

Challenges in addressing risk culture:
The three main challenges reported were: lack of management / board direction of the type of risk culture desired (41%), lack of clear understanding of the current culture (37%) and lack of clarity over embedding strategy for risk (35%).

Fundamentally, respondents appeared to be 'all at sea', reporting that they were not clear in respect of their current culture what the board wanted them to achieve in terms of culture change or how to address it through an embedding strategy.

Evaluating risk management embedding:
There is little agreement on how to evaluate how successfully elements of risk management have been embedded within the organisation. The most popular approaches were focused on the board and committees through evidence of discussion in minutes (39%) and reviews completed by Internal Audit (31%). Informal approaches (29%) were more popular than structured approaches using pre-defined criteria (24%). 10% of respondents had undertaken no evaluation.

Proxy indicators for an effective risk culture:
The strongest indicators reported as proxies of whether the organisation as a whole had an effective risk culture were the degree of executive management sponsorship and ownership (67%) and quality of board discussion on risk (67%). **There was a strong focus on governance processes** with effectiveness of risk committees (57%) and the extent of use of governance processes (50%) being seen as strong indicators. Only 24% of organisations felt that establishing the link between performance and reward and the management of risk was a strong indicator despite this being a conclusion of a number of reviews of the 2008 financial crisis. Again the reporting of operational risk events was only considered a strong indicator by 24% of respondents. 14% of respondents had not identified any indicators of risk culture.

Part 2 – Application of the Risk Culture Aspects Model

The Risk Culture Aspects model diagnostic tool was deployed using the online survey tool. The model has 8 aspects and these are represented in Figure 1 on the right, using a four-point scale (blue- excellent, through to red – poor).

The survey found that amongst the 109 respondents, the average diagnostic scores were strongest for 'risk governance' and 'risk resources'. The organisation had clear accountabilities for the management and the risk function had a clearly defined remit with the authority and support to deliver its role effectively. In addition their organisations had leaders who actively encouraged the reporting of risk information in a timely manner. There was a culture where 'bad news' was disclosed with a view to issues being resolved.

The remaining risk culture aspects were generally scored at the average level. Those aspects with the weakest scores included 'Risk Competence' and 'Rewarding appropriate risk taking'. This *implies that organisations have not recognised that developing the risk awareness of all staff is an important aspect of risk culture*. Risk management training programmes exist in parts of these organisations but they tend to be focused on the specific tasks required of those formally identified as having a role in the risk management process, rather than developing a wider skill base.

The survey also implies that organisations recognise that risk awareness and risk taking behaviours are important and to be encouraged, *but no link has been made between risk capabilities and performance management and reward*. In other words those that demonstrate the capability of evaluating risks and taking informed judgements are not rewarded, and conversely those taking inappropriate risks are not necessarily challenged.

Overall, the survey suggests that to date organisations have been focusing on the governance aspects (Solidarity axis) of risk culture more forcefully than on the competence aspects (Sociability axis). This conclusion is supported by the score on the 'Risk Leadership' aspect where expectations of senior management are defined (in policies and governance documentation) but not necessarily clearly and consistently communicated to staff. *Staff remain potentially unclear on the overall direction and what is expected of them under such circumstances*.

	Issue	Blue	Green	Yellow	red
		9-10	6-8	3-5	1-2
1	Risk Leadership	In addition to 'green', executive sponsor is very visible and leaders demonstrate their commitment on a sustained basis, show personal conviction in how they communicate and ask questions regarding business risks.	Leadership expectations are clearly expressed and consistently communicated. Direction is set and leaders create a 'Tone at the Top' through reinforcement and challenge.	Leadership expectations on risk management are defined but inconsistently communicated and understood. Staff are not clear on overall direction.	It is not possible to describe a 'Tone at the Top' or leadership expectations on how risks are managed.
2	Dealing with Bad News	In addition to 'green', leaders see their ability to extract learning from good and poor risk management judgements as a key corporate competitive advantage. This is seen as part of the organisation's knowledge management process.	Leaders encourage the timely communication of material risk information. They challenge managers to divulge 'Bad News' early to ensure it is acted upon in a timely manner.	The communication of 'Bad News' is sporadic. Attempts are made to encourage early communication of risk information. It is recognised that this is important, but processes are still to be formalised and embedded.	The organisation does not encourage the communication of information about potential negative events. Managers have concerns about communicating 'Bad News' to leaders. Stories exist of 'the messenger having been shot'.
3	Accountability and Governance	In addition to 'green', leaders act proactively on their accountabilities, seeking out and challenging risk strategies associated with key business risks under their nominal control.	Accountabilities for managing risks are clearly defined and widely understood. Accountability for risk management as a process is held by the risk function. Accountabilities are clearly mapped to manager's roles descriptions and targets.	Accountabilities for managing risk are partly defined. Some key regulatory and compliance aspects are well defined, but the appropriate is silo'ed. The risk management and reporting process is in place but not clearly defined or widely understood.	Accountabilities for managing risks are not consistently defined. It is not possible to be sure who is accountable for managing which risk. Risk management is ill-defined and ownership for the process is unclear.
4	Risk Transparency	In addition to 'green', leaders actively seek to learn from risk events. When appropriate risk decisions are taken, these are celebrated. More importantly when risks crystallise, the organisation seeks to learn from these events. The key learning points are widely communicated.	Risk information is communicated up and down the organisation. The information provided is meaningful to leaders and appropriate to their needs. Risk information is actively used in decision making and levels of appropriate risk are clearly defined.	Risk information is effectively communicated on certain specific issues related to regulatory or compliance aspects. Communication of risk information tends to be one-way (bottom-up) with little feedback or leadership direction. It supports a 'tick box' approach.	Risk information is not transparent and is not readily communicated. Managers do not receive risk information on which to base their judgements. It is not possible to define the level of acceptable risk within the organisation.
5	Risk Resources	In addition to 'green', leaders recognise the risk function as a valuable facilitator of strategic thinking on business risk. Risk managers are sought out to support the business in evaluating key decisions.	The risk function has a clear role and remit endorsed by senior management. The function has the support and credibility report to deliver these. The function has the skills and resources required to support an effective risk management culture.	The risk function's role is defined but it does not cover all aspects required for an effective governance process to be implemented. The risk function does not have the breadth and depth of skills to support all aspects required to develop an effective risk management culture.	The risk function does not have a clear role or remit. Governance activities are fluid and shared between a range of functions and role holders. Risk professionals are not seen as being strategic advisors. The risk function may be ill equipped to support Governance arrangements.
6	Risk Skills	In addition to 'green', competency in risk awareness and risk management is seen as an entry-level requirement for senior management and this is widely recognised across the organisation.	Risk awareness is recognised as a key competency for managers across the organisation. Skill development is proactively encouraged and programmes are in place to develop and sustain competency.	Training and awareness programmes around risk management exist in parts of the organisation. These are implemented in a partial or silo'ed manner. The process is not fully developed or sustainable as part of a wider ERM framework.	Competency in risk management is not recognised as a key skill. Training and communication programmes are not coordinated and address specific issues within the context of specialisms and 'silos' of risk,
7	Informed Risk Decisions	In addition to 'green', leaders refuse to take major decisions without an explicit risk / reward study. Risk-adjusted accounting practices are embedding in business planning.	Leaders actively seek risk information to inform their judgement on key business decisions. The willingness to take risk is understood and clearly communicated. The scale of risk and reward is balanced in decision making. The process for achieving this is visible and recorded.	Leaders seek risk information on an ad hoc basis to support decisions. The boundaries of acceptable risk are only defined with respect to specific issues. It is not clear how risk and reward are balanced although these are considered in decision making.	Business decisions are typically taken in isolation from explicit risk factors. The evaluation of risk and reward is done in an ad-hoc and intuitive manner.
8	Rewarding appropriate risk taking	In addition to 'green', leaders recognise that risk management competency is a key skill and this is used as a criteria in succession planning and leadership selection.	Leaders are supportive of those seeking to engage with the management of risks. Those that demonstrate a capability for evaluating risks and taking informed judgements are effectively rewarded. The Performance Management process is used to reward appropriate risk taking and to challenge inappropriate risk behaviours.	It is recognised that risk awareness and taking behaviours are valuable to the business. Steps have been taken to encourage these but these are not explicitly connected to Performance Management processes. Inappropriate behaviours go unchallenged typically.	Risk awareness and taking behaviours are not recognised as valued and are not explicitly rewarded.

App 1 Fig 1 Risk Culture Aspects Model Survey Outcomes

Appendix 2: IRM survey results – sociability and solidarity context for ERM implementation

In support of this IRM work on culture, a number of risk managers, collectively with over 354 years of experience between them, answered a set of questions relating to 10 common risk management activities. The survey was designed to be independent of any particular risk discipline and the task ranged from risk identification involving technical challenges to issues related to people issues. The questions also sampled a range of activities related to action orientated activities in risk such as dealing with fast moving risks and creating a shared understanding of risk itself within an organisation.

The risk managers surveyed represented a broad range of industries with differing risk management needs. Financial risk management, people and social care as well as project risk management provided us with a degree of sector independence.

The responses drawn out from the surveyed population were based on four distinct organisations each described as case types within the survey literature. Each type of organisation was highly characterised (low or high) by either Solidarity, the dimension of task orientated behaviour and/or Sociability, the dimension of social cohesiveness as described by Goffee and Jones in their work on organisational character.

Across the range of sectors represented, the results were remarkably uniform suggesting the type of risk management being addressed is less of a factor when dealing with the concept of culture in the two axes tested. An overwhelming 64% favoured organisations with both strong Solidarity and Sociability for achieving good quality risk management results. Only 2% of the surveyed population favoured organisations with neither Solidarity or Sociability and such an organisation was rejected by most respondents as actively making the task of risk management more difficult. The remaining 34% of the sample population were equally split between organisations that demonstrated either strong Sociability or strong Solidarity indicating the equal importance of both dimensions.

Within the detail of the questions, those risk management activities that needed cooperation and the development of a common understanding scored highly in Sociability and questions relating to mitigation actions scored high on Solidarity orientation as expected. The even distribution of these scores reinforces the value of both dimensions in the cultural dynamics of risk.

This small scale survey reaffirms that risk management is not independent of culture and while the right kind of culture can actively help with risk management, the wrong type of culture, far from being neutral, actually makes it more difficult to successfully manage risk. This was the main finding from this survey and the strength of polarisation towards helpful and unhelpful cultures underlines how important culture is in risk management. The survey also confirmed that the Solidarity and Sociability dimensions are very useful indicators for assessing risk culture and the Goffee and Jones tests should be one, but not necessarily the only, diagnostic tool considered by risk managers seeking to investigate risk culture in their organisation.

Appendix 3: Risk type in a sample of risk professionals

Grace Walsh and Geoff Trickey, Psychological Consultancy Ltd

Summary

This survey was conducted jointly by Psychological Consulting Limited and IRM. The aim of this research was to identify any systematic patterns in the natural disposition towards risk-taking amongst risk professionals and to demonstrate the use of the evaluation tools in the context of risk culture. Each participant was classified according to a taxonomy of eight Risk Types. Risk Type is considered to reflect deeply rooted dispositions that embrace perception of risk, risk tolerance, propensity for risk-taking and decision-making. The results show the sample to have a diverse Risk Type distribution that probably reflects the varied roles of the IRM membership. Compared to the general population, there are fewer Intense, Spontaneous and Adventurous Types within the profession. The sample population showed some differentiation across the other five Risk Types, with prevalence within each Risk Type that is slightly above that of the general population. At a more detailed level of analysis, taking some of the demographic data into account, the analysis reveals greater differentiation by gender, role, industry and years of experience.

Introduction

The Risk Type Compass™ addresses the aspects of personality that are related to a person's readiness to take risks and their ability to cope with it. As well as categorising each individual as one of eight Risk Types, the assessment generates an overall measure of Risk Tolerance; the Risk Tolerance Index (RTi). The Risk Type Compass™ questionnaire is based on personality research, building this more focused assessment on the accumulated knowledge that has produced a considerable global consensus about the structure of personality: the Five Factor Model (FFM). Risk Type is considered to be a component of temperament and, like other personality attributes, to be deeply rooted and consistent over a working life. Under stress and pressure, behaviour is likely to regress, becoming increasingly instinctive and tending to 'revert to type'.
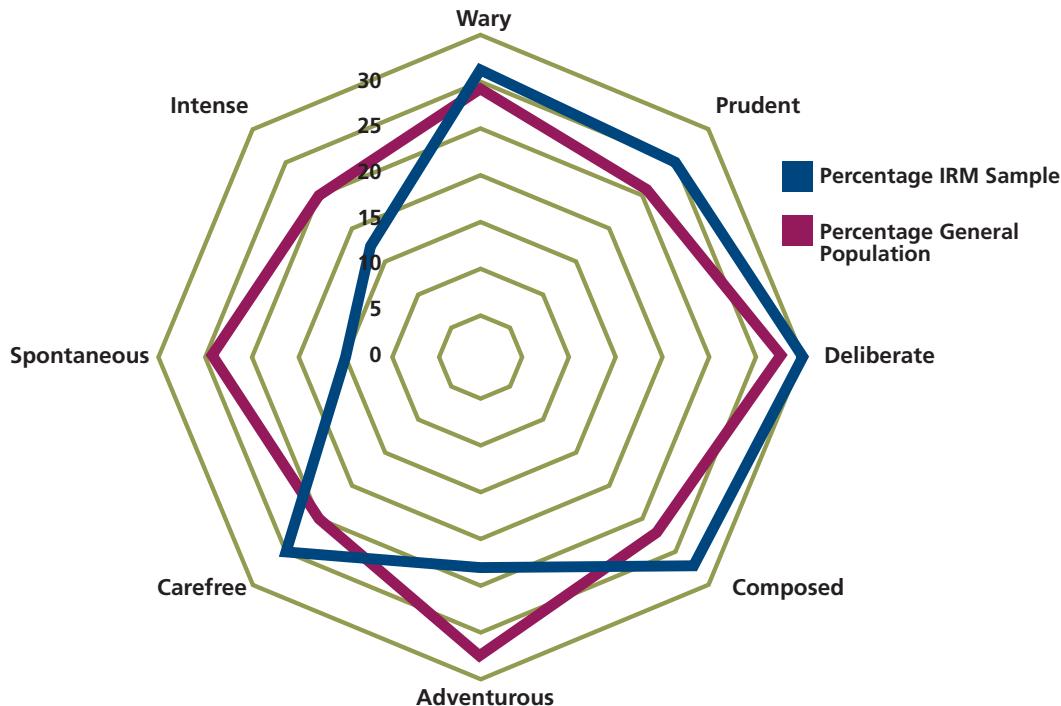
The Risk Type Compass™ assessment was designed to allow people management and staff deployment to take account of these influential risk dispositions, to enable a more coherent articulation of human factor risk and to promote a better understanding and self-awareness in those who manage risk or are employed in other risk related roles. For details of the tool and processes see Chapter 4.

Process

The aim of the research was to identify any systematic patterns in the disposition towards risk in a sample of risk specialists. The survey was carried out jointly by Psychological Consultancy Ltd and IRM, sampling risk specialists on an international basis. Risk specialists were invited to complete the Risk Type Compass™ questionnaire online. Participants were also asked to provide demographic information, such as gender, job role and level of qualification.
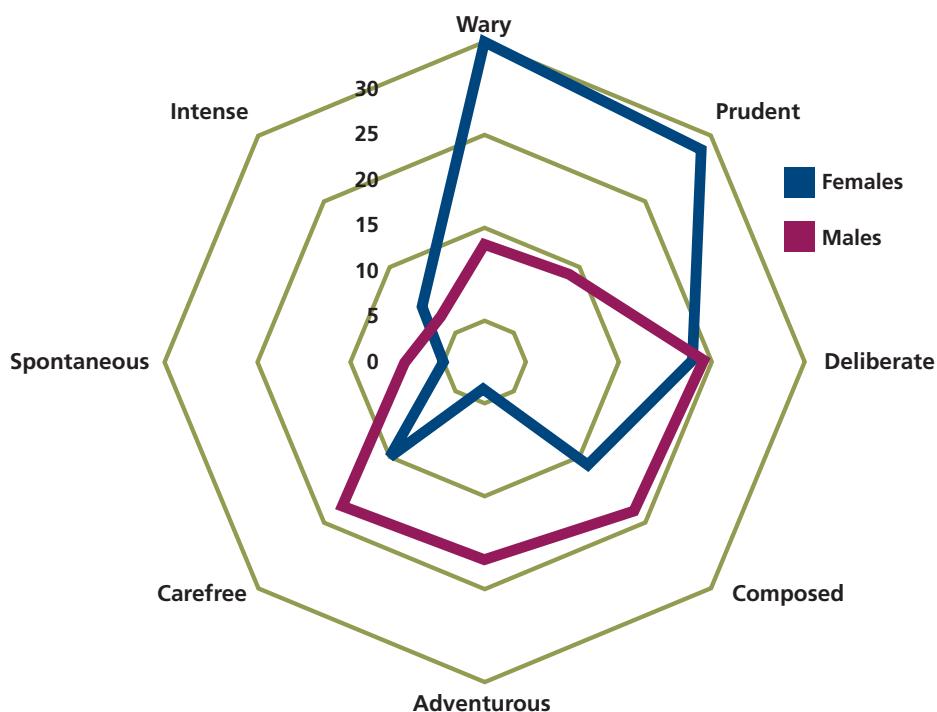
Results

Initially, analysis was conducted to examine the proportion of Risk-Types across the whole sample of 440 risk specialists. Further analysis was conducted investigating the different demographic data that included gender, age, job title (e.g. Chief Risk Officer, Head of Risk/Director of Risk, Risk Manager, Risk Analyst, Risk Consultant), years in the job (less than 2, 5-8, 12 or more), industry (Oil and Gas, Business and Professional Services, Financial Services-Banking, Transport, Public Sector etc.), IRM membership level, nationality, salary range and highest qualification.

App 3 Fig 1. Percentage of each Risk Type in the IRM sample in comparison to the general population
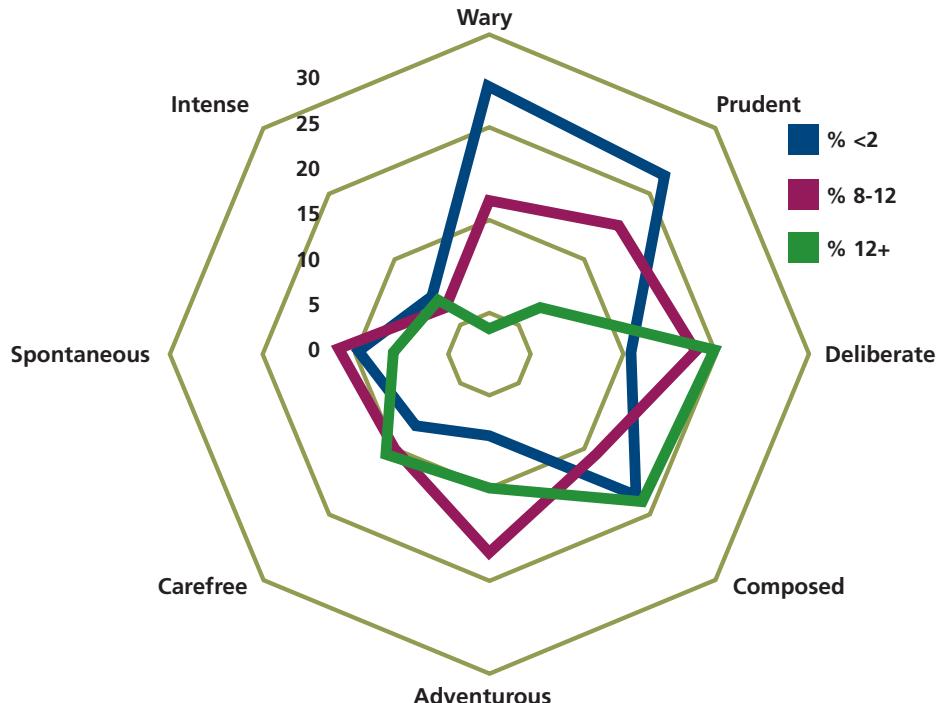
The results were analysed and compared with a 'general population' sample of 2,000 working adults from a broad range of occupations. Within this comparison sample, there is a close balance of each of the eight Risk Types. The results from the IRM sample show a clear shift in terms of three of the Risk Types, the Intense, Spontaneous and Adventurous Types, in each case having a lower prevalence. This balance is redressed across the other five Risk Types in which the IRM sample has a higher prevalence. The point to note is that these differences compared to the general population occur across three Risk Types that vary considerably, being designated as very high risk tolerance, average risk tolerance and low risk tolerance. However, the overall picture is one of a greater diversity, or less differentiation, of Risk Types than is usual in many other professional groups. This suggests that the IRM membership may be involved in very different roles and working practices associated with different aspects of risk management.

App 3 Fig 2. Percentage of each Risk Type across gender

Gender Diversity
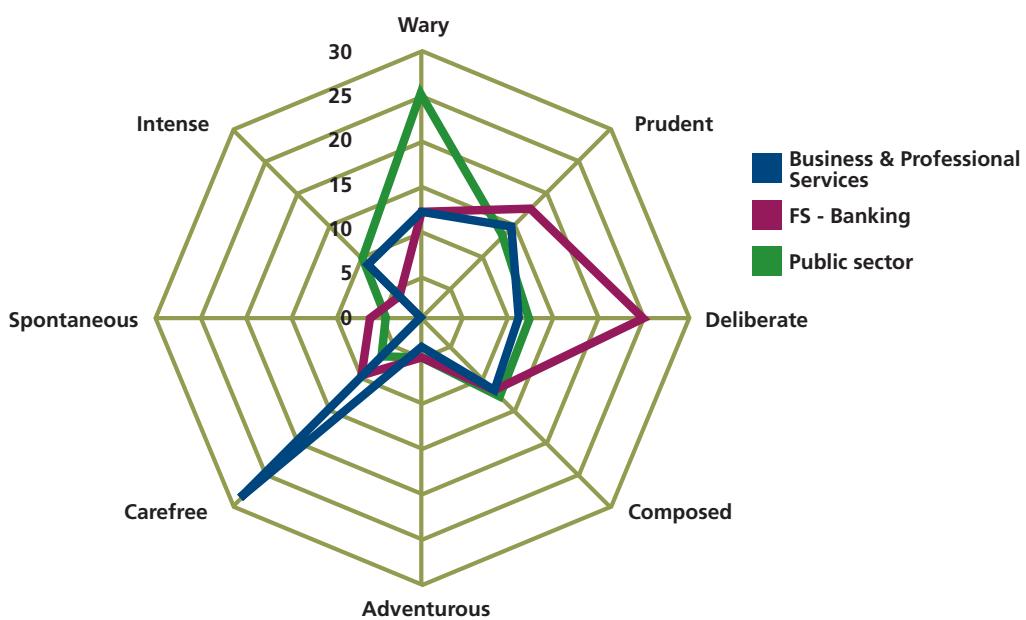
Although Risk Types seem to be evenly distributed in the population as a whole, there are very different incidents of males and females within each Risk Type. These data also reflects significant differences in Risk Type across gender. Results show there are over twice as many women who fall in to the Wary (19.6%) and Prudent Types (18.35%) compared to the male sample population (Wary Types 8.51% and Prudent Types (8.51%). In contrast, there are three times more male Adventurous Types compared to women (12.4% and 3.8% respectively).

App 3 Figure 3. Risk Type distribution across years of experience

Years of experience

Results showed differences in Risk Type when differentiating across years of experience in the job. From the data, those in the role less than 2 years are more Wary and Prudent compared to those 8-12 and 12 years plus. In general, positions on the compass graphic are more risk tolerant in the lower half. These results suggest that the more risk tolerant risk specialists have a more prolonged career in the field. Those who are 8-12 and 12+ years of experience score higher on the Deliberate, Adventurous and Carefree Types. They are significantly less Wary and Prudent in comparison to those less experienced. The dominant Risk Types for the more experienced sample population are Adventurous, Carefree, Composed and Deliberate. The central theme across these Risk Types is a confidence in one's own ability, being calm and level headed, optimistic and resilient. The dominant Risk Types of those newest to the profession are the Wary and Prudent Types. The Wary Type combines anxiety about risk with a methodical approach and shrewdness. At the root of the Prudent Type is a desire to eliminate uncertainty through compliance, conservatism and detailed planning.

App 3 Figure 4. Risk Type distribution across industry sector

Industry

An analysis examining the proportion of Risk Types falling within the various industries found quite different dominant Risk Types across the sectors analysed (Public Sector, Financial Services-Banking, and Business and Professional Services). The most significant for the Public Sector is the Wary Type; within the Business and Professional Services, the Carefree Type is most prevalent; and within Financial Services-Banking the Deliberate Type dominates. These differences are quite similar to those found in other research studies and are all generally in the expected direction. Although the risk profession, when observed as a whole, is fairly evenly distributed across Risk Types, there are obvious differences when viewed across industry sectors. The finding further supports the view that specific aspects of personality may influence attraction, recruitment and retention within these specialisms.

Summary

As a whole, the Risk profession seems quite diverse but this analysis highlights significant differences in Risk Type when viewed across industry, gender and years of experience. This would suggest that the risk profession has quite varied roles, responsibilities, and working practices. This is highlighted by comparisons with risk specialists in other samples; auditing, engineering , or recruitment for example, where there are clear and well defined trends in prevalence of Risk Type. The IRM sample was taken from across a range of industries including energy, transport, business consultancy and the Public Sector, so differences in the incidence of Risk Type should perhaps be expected.

Differences across gender reflect those observed for the general population. This prompts the generalisation that women are by nature more cautious, organised and systematic compared to men, who are in general more risk taking and adventurous. These differences are also evident when differentiating gender across job title and there are twice as many men as there are women in CRO, Head of Risk and Director of Risk positions. Equal numbers are seen across gender for Risk Manager and Risk Consultant and there are over twice as many women Risk Analysts compared to men in the sample. This change suggests an inflow of women to the profession in recent years.

Differences in prevalence of Risk Types according to years of experience in the risk professions move from the dominance of Wary Types when first joining the profession to the dominance of more risk tolerant individuals as they move further along in their career. Given that Risk Type is an element of personality, it is expected to be stable over a working life, so these figures suggest that those who last longer and who stay in the profession longer are those that are more risk tolerant and resilient. There were more of the longer serving people in the sample (12 or more years) in Business and Professional Services than in the other sectors. The majority of those with 8-12 years of experience were in the Financial Services-Banking sector, a pattern that may well reflect status or levels of remuneration.

Industry differences highlighted by this analysis again reflect trends discovered by other research studies. Differences will be seen across departments and specific roles within an organization, but there will typically be a general trend within the Risk Type spectrum for the industry as a whole. This may usefully be interpreted within Schneider's 'the people make the place' theory of organizational culture and his Attraction, Selection, Attrition (ASA) hypothesis. As the culture of the organisation becomes distinctive, it attracts like-minded people, the selection processes increasingly favour those that 'fit' and appointees that don't fit leave or are fired.

Implications

The results of this survey and data analysis strongly support the view that job roles and working practices differentiate across Risk Types. This has particular implications for those working within risk management because specialisms and practices are themselves so diverse within this broad professional sphere. Firstly, an individual's Risk Type will be a significant indicator in terms of their own 'fit' in relation to different professional opportunities and requirements. A second factor concerns self-awareness and Risk Type. Risk Type has implications for perception of risk, tolerance of risk, propensity for risk-taking and for decision-making. Given the considerable differences between opposite extremes across any axis of the Risk Type Compass, it is clear that this amounts to a pervasive influence on perception and decision-making. A risk professional needs to be aware of any potential bias in themselves and, so far as the people they are dealing with are concerned, aware of the extreme differences in outlook that they may be up against and with whom they need to communicate, influence and collaborate. Furthermore it demonstrates the use of the Risk Type Compass™ tool in the context of evaluating risk culture.

Appendix 4: Risk Intelligence
Dylan Evans

This Appendix allows us to include in our resource document some fascinating work by Dylan Evans on the subject of risk intelligence – a person's ability to estimate risk accurately, or not.

Introduction

The term "risk intelligence" has been defined in various different ways (Apgar 2006, Funston and Wagner 2010, Tilman 2012), but we define it as "the ability to estimate probabilities accurately" (Evans, 2012a & 2012b).

How do we judge the accuracy of probability estimates? One way is to compare subjective probability estimates to objective statistics. For example, one can ask people to estimate the probability of death from various causes for some particular demographic group, and compare these estimates to the mortality data. This method is restricted, of course, to subject areas for which data are readily available.

Another way to measure a person's ability to provide accurate probability estimates is calibration testing (Lichtenstein, Fischhoff et al. 1982). This involves collecting many probability estimates whose correct answer is known or will shortly be known to the experimenter, and plotting the proportion of correct answers against the subjective estimates. For example, suppose that every day you estimate the probability that it will rain in your neighborhood the following day, and then you note whether or not it did, in fact, rain on each day. To simplify things a little, let's assume that you can only choose from a discrete set of probability values, such as 0%, 10%, 20%, etc. Over the course of a year, you collect 365 estimates, for each of which you have also indicated whether it did, in fact, rain or not. Suppose that you estimated the chance of rain as 0% on 15 days. If you are well calibrated, it should have rained on none of those days. Again, if there were 20 days which you assigned a 10% chance of rainfall, it will have rained on 2 of those days if you are well calibrated. When the proportion of correct answers are plotted against the subjective estimates, the result is known as a calibration curve. With perfect risk intelligence, all points in the calibration curve would fall on the identity line (x = y).
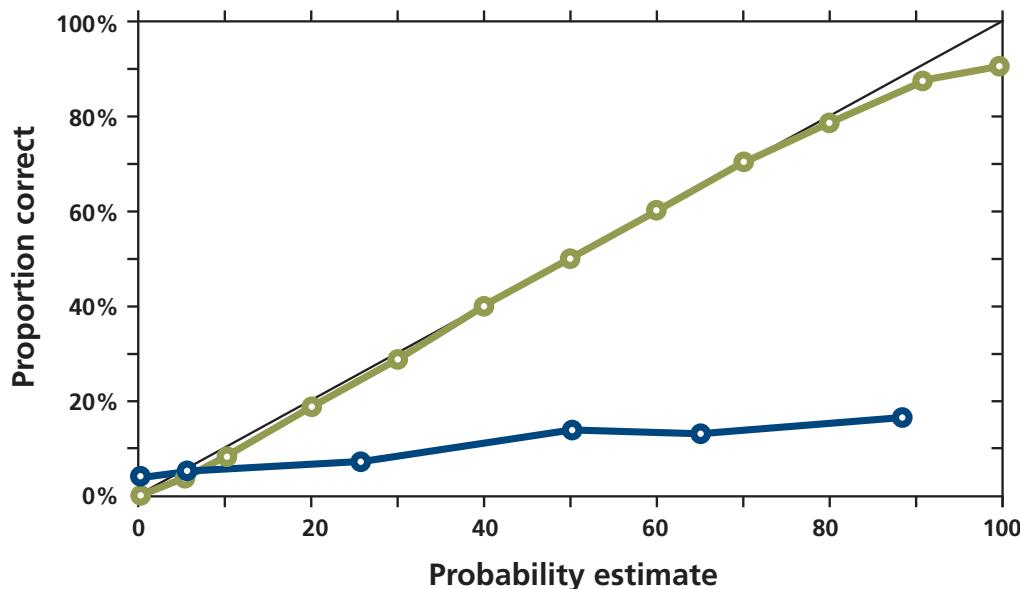
Nobody is perfectly calibrated, but as may be seen from Figure 1, US weather forecasters are pretty close. However, as the same figure also shows, doctors are very badly calibrated.

Between 1960 and 1980, psychologists measured the risk intelligence of many specific groups, such as medics (Christensen-Szalanski and Bushyhead 1981) and weather forecasters (Murphy and Winkler 1977), but did not gather extensive data on the risk intelligence of the general public. One reason for this was no doubt because the testing was done with pen and paper, which made data collection and processing a time-consuming process. It appears that interest in calibration testing began to decline after 1980, and has not progressed much since then. This area of research is ripe for revival, especially now that the internet allows testing and data collection to be automated.

Risk intelligence test

This section provides a brief overview of the online risk intelligence test which is available at www.projectionpoint.com . Users must estimate the probability of fifty statements according to the following rules:

- if you are absolutely sure that a statement is true, your estimate should be 100%

- if you are completely convinced that a statement is false, your estimate should be 0%

- if you have no idea at all whether it is true or false, your estimate should be 50%

- if you are fairly sure that it is true, but you aren't completely sure, your estimate should be 60%, or 70%, or 80%, or 90%, depending on how sure you are.

- if you are fairly sure that it is false, but you aren't completely sure, your estimate should be 40%, or 30%, or 20%, or 10%, depending on how sure you are.

App 4 Figure 1: Calibration curves for US weather forecasters (green line) and doctors (blue line). Data for US weather forecasters are from Murphy and Winkler 1977 and data for doctors are from Christensen-Szalanski and Bushyhead 1981

Ideally, the fifty statements will be tailored according to the specific expertise of the user, but it is possible to gain a rough idea of someone's risk intelligence by asking them to judge the likelihood of general knowledge statements. Here, for example, are ten statements that we use in our basic version of the test:

1: A one followed by 100 zeros is a Googol

2: Africa is the largest continent

3: Alzheimer's accounts for under half the cases of dementia in the US

4: An improper fraction is always less than one

5: Armenia shares a common border with Russia

6: There have been over 40 US presidents

7: In 1994, Bill Clinton was accused of sexual harassment by a woman called Paula Jones

8: Canberra is the capital of Australia

9: Zinedine Yazid Zidane played on the French national team for over 5 years.

10: Christianity became the official religion of the Roman empire in the third century AD

How to Score the Test

It's cumbersome and time-consuming to score this test manually, so we strongly recommend that you take the online version or use the online RQ score calculator at http://www.projectionpoint.com/index.php/calculator/rq_calculator, but for the sake of transparency, here's how to score the test:

Start by counting all the times you assigned a likelihood of 0 percent to a statement, and then count how many of those statements were actually true (the truth values of each statement from the test are below). Then divide the former into the latter and express the answer as a percentage. For example, if there are five statements that you estimated had a 0 percent chance of being true and exactly one of

these statements was true, divide five into one, which is 0.2 (or 20 percent). Since you can't divide by zero, if none of the statements was true, just put 0 percent.

Do the same for each of the other categories (10 to 100 percent).

Find the difference between each of the results you have calculated so far and the value of that category. For example, if 20 percent of the statements to which you assigned a probability of 0 percent were actually true, the difference is 20. If 30 percent of the statements to which you assigned a probability of 20 percent were actually true, the difference is 10. These are the "residuals."

Subtract each residual from 100.
Multiply the results from step 4 by the number of times you used the relevant category. For example, if the residual of the 20 percent category is 10 and you assigned a probability of 20 percent to seven statements, multiply 90 by 7.

Add up the results from step 5.
Divide the result of step 6 by the total number of probability estimates. If you answered all the questions in the test, it is the same as dividing the result of step 6 by the number of questions. This is the weighted mean.

Find the square of the result from step 7, and divide it by 100. This is your RQ score.

You can download an Excel spreadsheet that automates these steps from www.projectionpoint.com. Go the section of the website that is dedicated to the book and click on the Readers' Resources page. Table 1 is an example of this spreadsheet being used to calculate the RQ score of a person with a fairly high level of risk intelligence.

(A) Category	(B) Estimates	(C) TRUE	(D) Percent True	(E) Residuals (R)	(F) 100 − R	Column F × Column B
0	10	1	10	10	90	900
10	10	1	10	0	100	1,000
20	10	2	20	0	100	1,000
30	10	4	40	10	90	900
40	10	4	40	0	100	1,000
50	10	5	50	0	100	1,000
60	10	7	70	10	90	900
70	10	7	70	0	100	1,000
80	10	6	60	20	80	800
90	10	8	80	10	90	900
100	10	8	80	20	80	800
Total	110					10,200
Weighted mean						93
RQ score						86
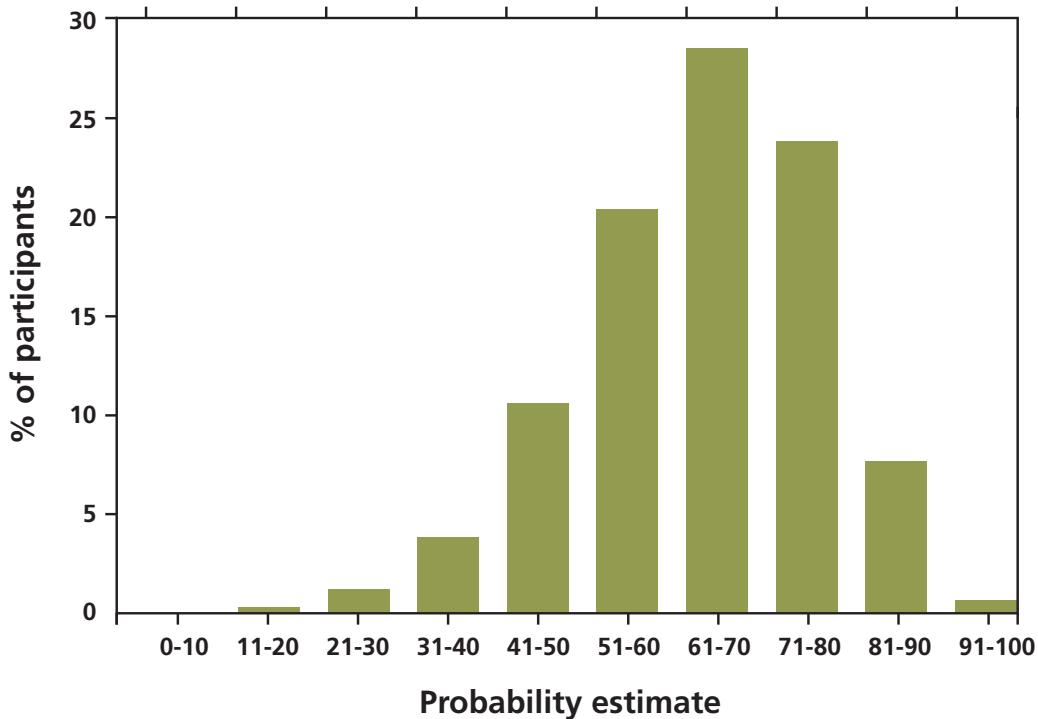
App 4 Table 1: Spreadsheet Showing How RQ Scores Are Calculated

The "Estimates" column shows how many times a particular category (0 percent, 10 percent, etc.) was used. The "True" column shows how many of the statements in that category were in fact true. The "Percent True" column divides the third column ("True") into the second ("Estimates") and expresses the result as a percentage. The "Residuals" column shows the difference between column 1 ("Category") and column 4 ("Percent True"). Column 6 ("100 − R")

is simply column 5 ("Residuals") subtracted from 100. Column 7 multiplies column 6 ("100 − R") by column 2 ("Estimates"). We then add all the numbers in column 7 and divide the result by the total number of estimates. We then find the square of that and divide by 100 to arrive at the RQ score.

Results

In the first thirteen months after launching the online risk intelligence test on 1 January 2010, more than 50,000 people visited the site, more than 38,000 of whom took the risk intelligence test. After eliminating those who didn't complete the whole test or who failed to specify their gender or profession, we were left with a total of 14,294 test results. The average RQ score in this group was 64, and the complete breakdown is shown in Figure 2.

App 4 Figure 2: Distribution of RQ Scores in the Research Sample

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Appendix 5: Respondents to consultation

IRM would like to thank the following people who made comments on our draft papers, plus many others who sent general messages of support or who preferred not to be listed. We may not have been able to incorporate every idea and suggestion but we feel that the challenge and input provided made a significant contribution to our work:

Name	Affiliation	Country
Karl Bailey	Executive Director, EMPOWERisk	South Africa
Richard Barr	Private	UK
Kenneth L Campbell	Private	UK
Niamh Carr	Towers Watson	UK
Trust Chikwiri	Ngubane & Co	South Africa
Patrick Claude	Corporate Risk Management, Arcelor Mittal	Luxembourg
Adrian Clements	Asset Risk Manager, Arcelor Mittal	Luxembourg
Alistair Craig	Private	UK
Oliver Davidson	Senior Consultant, Towers Watson	UK
Martin Davies	Senior Manager, Group Risk Governance & Reporting, Nationwide	UK
Heather Field	Risk Policy Manager, Department for Transport	UK
Andy Garlick	Private	UK
Ludwig Geldenhuys	CRO, City of Capetown	South Africa
Lee Glendon	Head of Research and Advocacy, Business Continuity Institute	UK
Garry Honey	Private	UK
Vanessa Jones	Corporate Legal Solutions	UK
Gillian Le Cordeur	IRMSA	South Africa
Arthur Linke	Independent Risk Consultant	South Africa
Sharon McCarthy	Head of Audit & Assurance, Highways Agency	UK
Mick Michael	Private	UK
Dean Myburgh	80-20 Options NZ	New Zealand
Monika Narula	UK based financial conglomerate	India
Zaid Omer	Private	South Africa
Alyson Pepperill	Head of Oval Charities and Client Projects Director, Oval Insurance Broking	UK
Naren Persad	Towers Watson	UK
Andrew Phillips	Private	UK
Rajnish Ramchurun	Private	Mauritius
Ron Rees	Private	South Africa
Val Richardson	Business Risk Manager, Nationwide	UK
Kanaga Devi Shanmugam	Director, Risk Management Division, Inland Revenue Board	Malaysia
Douglas Smith	Private	UK
Bill Stein	Private	UK
Ehtisham Syed	MD, Bootstrap SPR	Pakistan
Ly Xuan Thu	Head of Risk and Audit, Dragon Capital Group	Vietnam
Louisa Vergers	Private	UK
Stephen Ward	Professor in Management, University of Southampton	UK
Alan Waring	Private	UK
Richard Watson	Technical Management Consultancy	France
Mike Wilkinson	Director, Towers Watson	UK
David G Wilson	Partner (UK) Ontonix	UK

We are also grateful to members of Dan Swanson's GOV Yahoo Discussion Group and also the following LinkedIn Groups for their online debate and commentary on the papers:
Enterprise Risk Management Association
FERMA Risk Talk
*G31000 ISO31000 Group*
Risk Culture
Risk Culture Builders
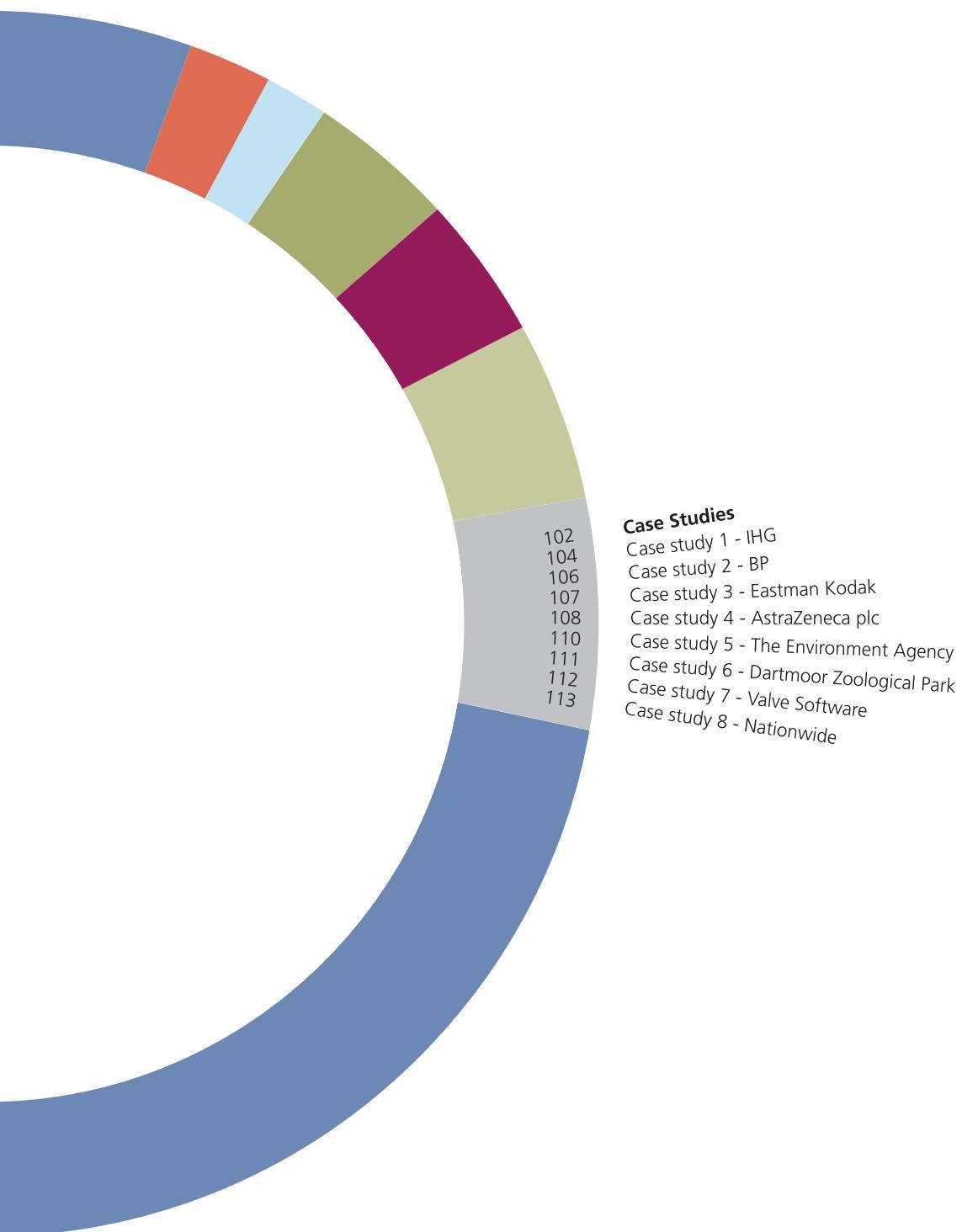
Appendix 6: IRM Risk Culture Aspects Model – Scorecard

Question	Theme	Issue		Expectations & Evaluation	
1	Tone at the top	Risk Leadership	(1) Is there a distinct ' Tone at the Top' from senior management as to the importance of risk management? If so what does it feel like? (2) Is direction provided as to how risk management can contribute to the business objectives? (3) Is senior commitment consistent, visible and sustained over time? (4) Who is the executive sponsor of risk management? (5) What tangible actions are visible from the executive sponsor?	Senior Management set clear expectations and strategic direction for risk management. Managers throughout the organisation are clear on what is expected of them in terms of managing risks. Leaders role model risk management thinking and actively discuss tolerance to risk issues. Leaders demonstrate personal conviction. Leaders ensure the focus of risk management efforts is focused on supporting the organisation in delivering its corporate objectives. The messages are consistently delivered and senior management are visible on the issue of managing risk. There is a clear message and sense of direction which is actively reinforced.	
2		Dealing with Bad News	(1) Do leaders encourage risk information and 'Bad News' to be proactive and rapidly communicated up the organisation? (2) Are whistleblowers and those raising concerns supported and celebrated? (3) How are those transmitting the message treated afterwards?	Senior management actively encourages management information related to risks to travel quickly across the organisation. Transparency on risk information (positive or negative) is rewarded and role modelled. Leaders refer to company values when responding to challenges. Openness and honesty are recognised as key to effective risk communication. Those providing timely risk insights are rewarded and encouraged.	
3	Governance	Accountability and Governance	(1) Accountability and ownership for managing specific risks is clear (2) Accountability and ownership for risk management as a process is clear (3) How are these accountabilities documented and communicated? (4) What communication and review structures are in place to ensure risk decisions are effectively reviewed? (5) How does the risk function support the governance of risk within the organisation?	Accountability for the management of key business risks is absolutely clearly defined. Accountabilities for managing risks are aligned to the accountabilities for key business processes and corporate objectives. The risk function has an active role in ensuring risk information is communicated and challenged. Risk accountabilities are captured within managers' role descriptions and performance targets.	
4		Risk Transparency	(1) Is risk information transparent and communicated appropriately up the organisation? (2) Is strategic direction provided clearly by senior management on appropriate levels of risk taking? (3) Is appropriate and successful risk taking celebrated and role modelled across the organisation? (4) Does the organisation actively learn from adverse events and situations where risks were not appropriately managed?	Risk information is communicated in a timely manner to those across the organisation needing access. Risk information is provided in a meaningful format that can be absorbed and acted upon by leaders. Where appropriate risk taking is successful, success is widely shared and learnt from. Where risk taking is less successful, learning is extracted from these events and shared in an appropriate manner.	
5	Competency	Risk Resources	(1) Does the risk function have the access to senior management to deliver its remit? (2) Does the risk function have the credibility across the organisation to deliver its remit? (3) Does the risk function have the resources required to deliver its remit? (4) Is the risk function encouraged to facilitate discussions on key risks? (5) Is the risk function supported in challenging decisions related to key risks?	The risk function: - has defined remit and scope of operations - is clear on its strategic objectives and purpose - builds and sustains relationships across all parts of the organisations with business leaders - has the support of leaders in meeting its remit and objectives - is seen as a valuable facilitator of decision making and source of expertise - has evaluated its resource and skills needs to meet these objectives - effectively administers and owns an effective risk management framework - is able to challenge how risks are being managed when appropriate.	
6		Risk Skills	(1) Is it recognised that risk competence and capability are key assets within the organisation? (2) Are Internal controls seen to rely on a high degree of risk awareness within the organisation? (3) Is a specific competency 'Concern for Risk' / 'Risk awareness' defined and tracked through the performance management process? (4) How are risk skills encouraged and developed?	A structure of risk champions has been developed across the organisation to support managers in better managing risks. Leaders support those who invest time in building skills in managing risk. Structured programmes are in place to support those seeking awareness, training and competency building in risk management.	
7	Decision Making	Informed Risk Decisions	(1) Is risk information transparent to decision makers in a timely manner? (2) Is it possible to determine what boundaries and risk appetite criteria decisions are being made within? (3) Is to possible see how risk has been integrated into key decision making?	Leaders seek out and demand quality risk information as part of decision making processes. The business's willingness to take on risks is understood and communicated. Risks are evaluated in the context of the nature of business opportunities being considered. Is possible to see a 'watermark' of risk awareness in key decision making.	
8		Rewarding appropriate risk taking	(1) Are appropriate risk taking behaviours rewarded and encouraged? (2) Are inappropriate or unbalanced risk behaviours (overly risk averse, overly risk seeking) challenged and sanctioned? (3) How are appropriate behaviours valued and nurtured? (4) Is risk management competency specifically included in role descriptors and performance targets through the performance management process?	Leaders are supportive of those actively seeking to understand and manage major risk challenges. The Performance Management process is actively used to reward appropriate risk taking and to challenge inappropriate risk behaviours. Risk awareness is recognised as a key risk management competency and is incorporated within leadership selection and development criteria.	

Blue	Green	Yellow	red	Evaluation	Analysis	Weighting	Score
9-10	6-8	3-5	1-2				
In addition to 'green', executive sponsor is very visible and leaders demonstrate their commitment on a sustained basis, show personal conviction in how they communicate and ask questions regarding business risks.	Leadership expectations are clearly expressed and consistently communicated. Direction is set and leaders create a 'Tone at the Top' through reinforcement and challenge.	Leadership expectations on risk management are defined but inconsistently communicated and understood. Staff are not clear on overall direction.	It is not possible to describe a 'Tone at the Top' or leadership expectations on how risks are managed.	Capture evidence		2	3
In addition to 'green', leaders see their ability to extract learning from good and poor risk management judgements as a key corporate competitive advantage. This is seen as part of the organisation's knowledge management process.	Leaders encourage the timely communication of material risk information. They challenge managers to divulge 'Bad News' early to ensure it is acted upon in a timely manner.	The communication of 'Bad News' is sporadic. Attempts are made to encourage early communication of risk information. It is recognised that this is important, but processes are still to be formalised and embedded.	The organisation does not encourage the communication of information about potential negative events. Managers have concerns about communicating 'Bad News' to leaders. Stories exist of 'the messenger having been shot'.	Capture evidence			
In addition to 'green', leaders act proactively on their accountabilities, seeking out and challenging risk strategies associated with key business risks under their nominal control.	Accountabilities for managing risks are clearly defined and widely understood. Accountability for risk management as a process is held by the risk function. Accountabilities are clearly mapped to manager's roles descriptions and targets.	Accountabilities for managing risk are partly defined. Some key regulatory and compliance aspects are well defined, but the appropriate is silo'ed. The risk management and reporting process is in place but not clearly defined or widely understood.	Accountabilities for managing risks are not consistently defined. It is not possible to be sure who is accountable for managing which risk. Risk management is ill-defined and ownership for the process is unclear.	Capture evidence		1	5
In addition to 'green', leaders actively seek to learn from risk events. When appropriate risk decisions are taken, these are celebrated. More importantly when risks crystallise, the organisation seeks to learn from these events. The key learning points are widely communicated.	Risk information is communicated up and down the organisation. The information provided is meaningful to leaders and appropriate to their needs. Risk information is actively used in decision making and levels of appropriate risk are clearly defined.	Risk information is effectively communicated on certain specific issues related to regulatory or compliance aspects. Communication of risk information tends to be one-way (bottom-up) with little feedback or leadership direction. It supports a 'tick box' approach.	Risk information is not transparent and is not readily communicated. Managers do not receive risk information on which to base their judgements. It is not possible to define the level of acceptable risk within the organisation.	Capture evidence		1	4
In addition to 'green', leaders recognise the risk function as a valuable facilitator of strategic thinking on business risk. Risk managers are sought out to support the business in evaluating key decisions.	The risk function has a clear role and remit endorsed by senior management. The function has the support and credibility report to deliver these. The function has the skills and resources required to support an effective risk management culture.	The risk function's role is defined but it does not cover all aspects required for an effective governance process to be implemented. The risk function does not have the breadth and depth of skills to support all aspects required to develop an effective risk management culture.	The risk function does not have a clear role or remit. Governance activities are fluid and shared between a range of functions and role holders. Risk professionals are not seen as being strategic advisors. The risk function may be ill equipped to support Governance arrangements.	Capture evidence		1	5
In addition to 'green', competency in risk awareness and risk management is seen as an entry-level requirement for senior management and this is widely recognised across the organisation.	Risk awareness is recognised as a key competency for managers across the organisation. Skill development is proactively encouraged and programmes are in place to develop and sustain competency.	Training and awareness programmes around risk management exist in parts of the organisation. These are implemented in a partial or silo'ed manner. The process is not fully developed or sustainable as part of a wider ERM framework.	Competency in risk management is not recognised as a key skill. Training and communication programmes are not coordinated and address specific issues within the context of specialists and 'silos' of risk,	Capture evidence		1	5
In addition to 'green', leaders refuse to take major decisions without an explicit risk / reward study. Risk-adjusted accounting practices are embedding in business planning.	Leaders actively seek risk information to inform their judgement on key business decisions. The willingness to take risk is understood and clearly communicated. The scale of risk and reward is balanced in decision making. The process for achieving this is visible and recorded.	Leaders seek risk information on an ad hoc basis to support decisions. The boundaries of acceptable risk are only defined with respect to specific issues. It is not clear how risk and reward are balanced although these are considered in decision making.	Business decisions are typically taken in isolation from explicit risk factors. The evaluation of risk and reward is done in an ad-hoc and intuitive manner.	Capture evidence		2	4
In addition to 'green', leaders recognise that risk management competency is a key skill and this is used as a criteria in succession planning and leadership selection.	Leaders are supportive of those seeking to engage with the management of risks. Those that demonstrate a capability for evaluating risks and taking informed judgements are effectively rewarded. The Performance Management process is used to reward appropriate risk taking and to challenge inappropriate risk behaviours.	It is recognised that risk awareness and taking behaviours are valuable to the business. Steps have been taken to encourage these but these are not explicitly connected to Performance Management processes. Inappropriate behaviours go unchallenged typically.	Risk awareness and taking behaviours are not recognised as valued and are not explicitly rewarded.	Capture evidence		1	3
					Total Score (%)	10	31

EXAMPLE

Case studies

Case Studies
Case study 1 - IHG
Case study 2 - BP
Case study 3 - Eastman Kodak
Case study 4 - AstraZeneca plc
Case study 5 - The Environment Agency
Case study 6 - Dartmoor Zoological Park
Case study 7 - Valve Software
Case study 8 - Nationwide

Case study 1 – IHG

"Developing a Risk Management Culture that Embraces Change"

Context – IHG is one of the world's largest hotel companies by number of rooms.

• IHG has 4,506 hotels, 661,159 rooms in nearly 100 countries and territories.

• These hotels are represented across 7 brands: InterContinental Hotels & Resorts, Hotel Indigo, Crowne Plaza, Holiday Inn, Holiday Inn Express, Staybridge Suites, Candlewood Suites.

• In 2012, IHG announced two new brands: EVEN Hotels and HUALUXE Hotels and Resorts.

• The Group has the largest loyalty programme in the industry with 65,000,000 Priority Club members.

• 345,000 members of staff are employed across IHG's owned, managed and franchised estate.

IHG was launched in 2003 as a company out of the metamorphosis and break up of the leisure and drinks conglomerate Bass PLC, originally a British brewer founded in 1777 which bought Holiday Inn, founded in America in 1952, and InterContinental which was started by PanAm in 1946.

The strategy at Bass PLC was to develop businesses that held a no.1 or no.2 position in their markets and to drive synergies between the businesses. Repeated blockages in M&A and the City's preference for single focus companies lay behind the break-up of the old company. The initial strategy in the first phase of the new hotel company was to generate scale and catch up with the major competitors. The second phase was to increase the return on capital; this was achieved by selling the vast majority of physical assets, with management or franchise agreements in place, and returning funds to shareholders. Since 2003 the entire original value of the company has been given back to shareholders and the shares today stand in excess of £15.50. Next was a push for growth into key markets resulting in a stronger leadership position in the mid-market in the US and across the board in China. Risk is optimised in part by the different business models deployed which include franchise, managed or owned and the hotel brands we offer ranging from upscale such as InterContinental and Crowne Plaza, to mid-scale such as Holiday Inn, extended stay and boutique hotels. Today IHG is able to focus on developing and delivering compelling branded experiences in hotels. The Holiday Inn brand was successfully re-launched in the face of the credit-crunch; this was the world's biggest brand re-launch.

The risks to the company reflect the change and evolution of the assets owned, from physical properties to brands and experiences. Concerns over physical safety and commercial success are joined increasingly with the need to protect the trust guests and other stakeholders place in our brands and our business. Our shareholder value is increasingly linked to our reputation. This evolution promotes the need for a stronger risk management capability and culture throughout the management structure.

Scale, strong financial returns, global brands and growth in difficult times are clear achievements, driven by strong guest focus which is seen by all stakeholders as the heart of our common good, a philosophy enshrined in a **BrandHearted** approach to business.

Risk leadership – Strong alignment of all stakeholders to a core purpose of **Great Hotels Guests Love**, living in accordance with our **Winning Ways**; behaviours that define our culture, working in a **BrandHearted** approach, directing and measuring performance in terms of **Brands, People, and Delivery** each in conjunction with **Doing Business Responsibly** form the foundation for a truly healthy culture.

The global risk management team work with leaders at every level and are responsible to the board for policy, standards and oversight of a wide range of operational risks such as safety and security, the provision of global risk services including insurance and risk training, and the coordination and promotion of risk management leadership across the corporation's functions and regions both in terms of strategic and tactical risks.

Risk governance – Risks are captured at various levels and effort across the company is overseen by the **Risk Working Group** and reported to the **Audit Committee**. The **board** assign responsibility for the Major Risks to members of the Executive; all **Functional teams** have risk registers, action plans and performance monitors, with risks assigned to Senior Managers; **Major Projects** similarly have risk management embedded and **Hotels** maintain a risk management Action Plan for safety and security risks.

Risk transparency – Crises, be they Operational, Tactical or Strategic, are reported to the Executive as soon as credible facts are known. Leadership is assigned and crisis teams formed. Incidents and claims are logged, managed and analysed for trends. Reviews of events within our control are performed to identify risk mitigation improvements. Risk management is measured in terms of personal competence, hotel compliance, team maturity and business performance. Reward and recognition programmes are embedded into the HR and Quality programmes.

Risk resources – The global risk management department is organised in a matrix of regional and global specialist support teams. The **Team of Teams** has a shared vision aligned to the business and a clear mission, strategy and culture. The strategic framework for the team is also our internal brand logo, The **IHG risk management Cogs** as shown. One **Cog** represents the risk groups that hotels are asked to focus on and the other represents the practical steps needed to identify, mitigate and report risk. The reputation of the team is strong and safety and security are seen as competitive advantage and brand distinguishing features. Any concerns that risk managers have anywhere in the business are aired with the appropriate leader or leadership team directly or by working through the other parts of the Business Reputation and Responsibility Function comprising also the Legal, Global Internal Audit, and Corporate Responsibility teams. Access to the Executive Team, Audit Committee and board are normally through the Head of Function (Business Reputation and Responsibility) or at formal presentations to these bodies.

Risk competence – The regional teams focus on hotel safety and the global teams work with or through them to support the business on matters such as security, risk financing, training, corporate risk and fraud management. Each team develops relevant relationship networks across the business to aid the flow of intelligence and levels collaboration across other teams. Each Function, Major Project, Region, Area and Hotel assigns resources and responsibilities aligned with their risk profile.

We have invested heavily in risk management training which is delivered at hotels and corporate offices using a mixture of learning formats and when possible accredited by professional bodies. Corporate staff training is embedded in the leadership training including the web-based IHG Leadership Lounge. Web-based Risk Toolkits have been developed to equip managers with everything they need to implement risk programmes into the business including videos, standards, guidance, e-learning and required documentation.

Risk decisions – Every leader sets priorities for their teams and these are encouraged to be balanced appropriately in terms of risk versus reward and the achievement of goals versus management of threats. Decisions, like behaviours, are driven by the core purpose **Great Hotels Guests Love** and framed by the **Winning Ways,** and fact-based, risk aware decision making is expected and encouraged. The **BrandHearted** approach and the IHG management style is stakeholder consensus driven and so there is a strong collective awareness of what is appropriate and desired in terms of risk taking. When decisions push the envelope people are usually keen to ensure consensus that they are **Doing Business Responsibly**.

With thanks to John Ludlow, SVP Global Risk Management, Intercontinental Hotels Group

Case study 2 – BP

"Ultimately a failure of leadership"

BP plc is a major oil and gas company with a proud heritage going back to Anglo-Persian Oil founded in 1909. British Petroleum (BP) was gradually privatised between 1979 and 1987 prior to embarking on a series of major mergers and acquisitions under the leadership of Lord Browne including Amoco (1998), Arco (1999) and Burmah-Castrol (2000) which doubled its size and significantly expanded its US footprint. It is a world-scale organisation with turnover of $309million and 80,300 employees [2010].

The 1998 merger with Amoco brought the Texas City refinery into the Group. This was a significant asset, being the largest BP refinery in the world and third largest in the Group. It had however suffered from under-investment in maintenance for a number of years.

An explosion in March 2005 killed 15 contract workers and injured up to 500 others. Over 40,000 residents in neighbouring areas were impacted by the resulting incident. Subsequent compensation settlements exceed $1.6 billion along with a series of fines and penalties for breaches of health and safety regulations. It left the organisation's reputation exposed in the run up to the Macondo / Deep Water Horizon disaster in 2010.

Two significant investigations were conducted into the lessons from the disaster. An internal Fatality Investigation Team led by John Mogford produced an initial [Mogford] report. This was followed by an independent report led by James Baker [Baker Report] with a wider remit to investigate the safety culture and management systems across BP North America.

Drawing from these papers and the AIRMIC (2011) study, the IRM's Risk Aspects Model can be used to analyse BP's situation in 2005, and drawn the following conclusions:

Risk Leadership- the board and senior executives consistently failed to show consistent leadership on the issue of process safety. Organisational complexity as a result of failure to fully integrate a number of major acquisitions had left the organisation's management structure confusing. BP's decentralised management culture encouraged local management to be entrepreneurial and to have a short-term focus on cost savings. This was not sufficiently balanced by clearly defined safety standards and management accountabilities. The Baker Report concluded that "the BP board of directors did not provide effective oversight of BP's safety culture and major accident prevention programmes." The result was that local management were allowed substantial discretion and the ability to sanction serious deviations from accepted safety practices.

Responding to bad news – management failed to respond to a series of 'early warning' signals including a double fatality at the same site in September 2004. Safety lessons from other sites were not communicated sufficiently widely or acted upon. The Baker Report recognised that BP had improved its incident investigation and near miss reporting processes since the explosion. There had been a failure however to learn from three significant events occurring at the Grangemouth refinery in Scotland in 2000. Root cause analysis had not been implemented rigorously and hence the lessons had not been fully understood or shared. The report concluded that 'the similarities between the lessons from Grangemouth and the Texas City incident are striking: a lack of leadership and accountability, insufficient awareness of process safety, inadequate performance measurement, a safety programme too focused on personal safety and a failure to complete corrective actions."

Risk governance – Investigations have shown that there was a failure to define clearly management accountabilities within BP. Clear accountability for process safety at site or corporate level was lacking and it has been concluded this was largely as a result of an over-complex corporate structure resulting from rapid growth. More tellingly, an independent report commissioned by refinery management from Telos Group and delivered two months before the explosion concluded that "the history of investment neglect, coupled with the BP culture of lack of leadership accountability from frequent management changes, is setting BP Texas City up for a series of catastrophe events". Certainly, following Tony Hayward's appointment as BP CEO in 2007, he undertook a management restructuring exercise that removed four layers of management and addressed a number of overlaps in accountabilities.

Risk competence – the ability of the organisation to identify and act on hazard awareness had been consistently eroded by under-investment in process safety. Pressure on personal safety issues as well as well operational efficiency targets had eroded BP's corporate capability in process safety management. In many ways BP lost its original safety culture in the period following privatisation in 1987. Airmic quotes the Financial Times in concluding "BP's culture was designed to be the most efficient cost-cutter in the industry and they did it with a certain degree of arrogance and out of that came too many corners cut on maintenance and safety".

It is often said with respect to safety that organisations have the standards and management are prepared to walk past. In this case it is clear that the 'tone at the top' was not sufficiently clear in establishing appropriate expectations. The Baker Report concluded that "a substantial gulf appears to have existed between the actual performance of BP's process safety management systems and the company's perception of that performance." There was a lack of connection between the high ideals of BP's board and the day-to-day practice of its operations. "Ultimately, that represented a failure of leadership". The consequence on BP's corporate reputation in the United States and beyond cannot be underestimated.

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Case study 3 – Eastman Kodak

Big Yellow – The biggest risk is not taking one

Eastman Kodak - 'Kodak' to millions was a trusted leading brand for over a hundred years. Its descent into Chapter 11 bankruptcy in 2012 represents a strategic failure to reinvent itself and a missed opportunity to adopt digital technology that it invented in 1975 but was unable to capitalise upon.

Kodak's failure is ultimately about its inability to take strategic risk. Its strengths ultimately led to its downfall. Kodak came to define itself as a chemical business and focused on creating extremely efficient supply chains for delivering film to customers and failed to capitalise on its invention of digital technology. This 'disruptive' technology did not fit its vision of itself.

The organisation was unable to recognise that its brand was associated with the imaging industry and not its internal perception as a chemical manufacturer. It was not able to 'let go' at the right moment, unlike its founder George Eastman who twice recognised the impact of a 'disruptive' technology and proved himself willing to adapt. He moved the organisation firstly from dry plates to film technology, and then from black and white to colour images. In both cases, the new technology was inferior to the incumbent products.

Applying the Risk Aspects Model to Kodak's situation in the 1970s it is possible to identify a number of areas that contributed to this situation:

Risk Leadership – Kodak's story is ultimately one of a failure of leadership. Management had developed a rule-bound culture where radical decision making was not possible. Kodak's business model was based upon being the world's best film supplier. It was a not sufficiently attuned to changing customer expectations to recognise that its core competencies may become redundant over time.

Risk Transparency – Kodak had excellent market intelligence and was able to analyse and evaluate the impact of digital technology on its core films business. Its Intelligence Unit predicted the impact of digital media and advised they had a 10-year window of opportunity, predicting that early adoption would be slow, but would rapidly take off once critical mass was achieved.

Responding to bad news – Management recognised the pressures, but was frozen, unable to take difficult decisions. Mark Zupan of Rochester Business School summarises this simply: "if you are not prepared to cannabalize yourself others will do it for you." Kodak lost relevance in its core markets and newer competitors unencumbered by history and with leaner business models moved more quickly.

Risk Decisions – The organisation had the information required to make the strategic choices necessary in the early 1980s. It was not able to think and act holistically across a number of silo'ed functions. When Kodak recognised the need for change, it sought to do so incrementally. Digital technology was a 'game changing event' and Kodak executives delayed action with the aim of preventing inflicting pain on the organisation. They were not prepared to take the necessary risks to change direction, and in the end did too little too late.

Rewarding appropriate risk taking – Kodak had become very efficient but at the same time highly inflexible. Senior management had risen through the ranks by 'running a tight ship' where focus was on efficiency of existing processes. It was a 'make and sell' model. Management were rewarded for reinforcing the status quo.

By sticking to an outdated business model, Kodak essentially brought about its own slow demise, as it was unable to adapt to the post-digital age.

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Case study 4 – AstraZeneca plc
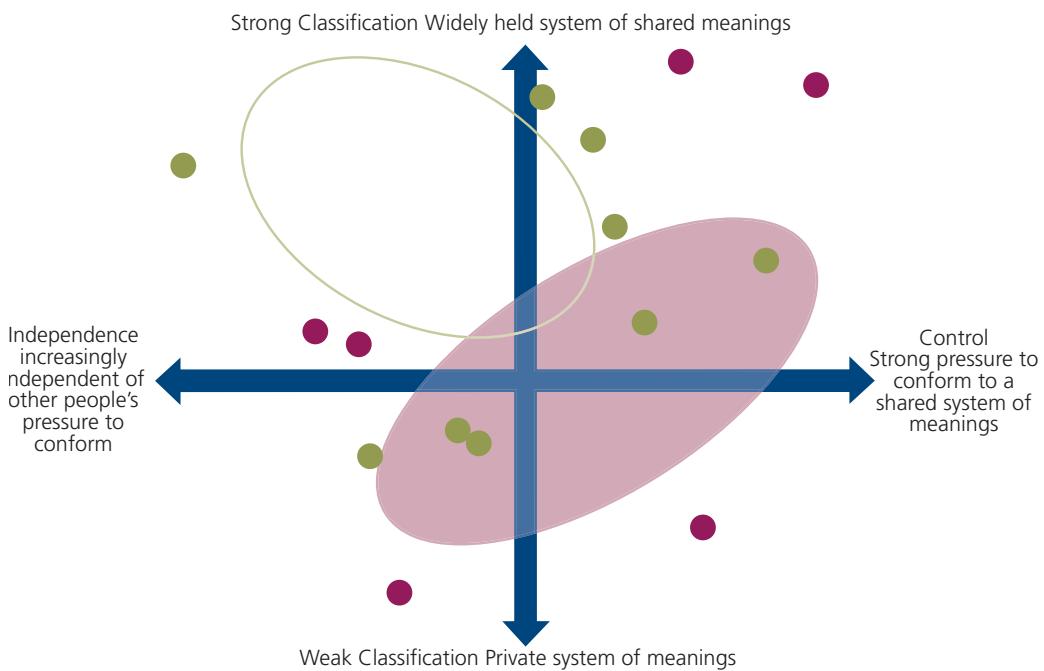
AstraZeneca is a major international pharmaceutical company, headquartered in London and founded in 1999 by the merger of Astra AB of Sweden and Zeneca plc, the demerged pharmaceutical division of Imperial Chemical Industries plc (ICI).

AstraZeneca was an early adopter of ERM in 2002. It recognised that there were opportunities created by the greater integration of risk and assurance functions and processes. The organisation brought together over 55,000 staff with multiple sub-cultures and complex functions and processes. Its portfolio was very risky with significant patent expiries in 2001-2003. It had put in place risk governance processes as a result of the Turnbull Guidance issued in 1999, but wanted to move beyond.

Chris Ainsworth; an organisational development specialist, first deployed an early version of the Risk Culture Aspects model to focus a conference of risk specialists on the nature of integration of risk management the organisation desired to implement.

In fact the senior executive team decided that "internal controls were now aligned more closely with AstraZeneca values and the desired culture: effective control through empowerment and risk awareness rather than too much bureaucracy". This recognised a number of paradoxes inherent in driving increased accountability whilst encouraging empowerment, tolerance of risk whilst desiring control and responsible behaviour.


App 8 Figure 1: What does Integrated Risk Management mean?

The initial conference attended by over 50 professionals from a wide cross section of functions including research, manufacturing, marketing, quality control, health and safety and corporate communications were asked to determine where the organisation was using the Culture Aspects Model and plotted its current position as Red in the above diagram. This confirms there was no integrated approach across the organisation but there was a strong desire to create a 'shared meaning' of risk management without enforcing central control, seen as a source of potential bureaucracy.

The overall philosophy defined was "Enduring Shareholder value comes from creating opportunities and managing risks" supported by five principles:

- Delivering opportunities by managing risk is a key part of all our activities.
- In all our activities, risk should be understood and visible.
- Approaches to managing risk will be simple, flexible and sustained.
- Business context will determine the level of acceptable risk and control.
- Risk will be managed consistent with Company Values.

Where do we want to be?

App 8 Figure 2: Where do we want to be?

Risk leadership – The initial conference was opened and sponsored by the Group Financial Director and the senior executive team showed clear leadership to the programme.

Risk resources – The conference led to the creation of a virtual 'integrated risk management' team bringing together a dozen risk champions from across the business. This team evolved over time into a small dedicated ERM team.

Risk competence – The organisation invested significantly in learning and development initiatives to drive adoption of a common 'integrated risk management' approach across the business. This was supported by the development of a common risk language and web-based tools.

Risk decisions – The organisation aspired to create integrated risk management as a "watermark" in all significant projects and business processes by 2005.

Responding to bad news – AstraZeneca's Achilles heel throughout was the senior executive's ability to receive and address bad news within the organisation, starting with the Chief Executive at the time. A series of failures of major products to deliver on planned marketing positions with Crestor, Iressa, Galida and Exanta due to ethicacy issues or competitive pressures were not confronted early enough. The 'Big Pharma' blockbuster business model based on huge investments in a small number of mega-drugs driven by large commission-based sales forces came increasingly to be questionable. Pressure from investors has led to the need to complete expensive acquisitions such as MedImmune in 2007 and a repeated significant redundancy programmes between 2009 and 2012 totalled over 28,000 people. This culminated in the departure of the CEO in the 'Shareholder Spring' of 2012.

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Case study 5 – The Environment Agency

The Environment Agency (http://www.environment-agency.gov.uk/) is a UK public body with the principal aims of protecting and improving the environment and promoting sustainable development. This includes reducing the risks to people and properties from flooding; making sure there is enough water for people and wildlife; protecting and improving air, land and water quality and applying the environmental standards within which industry can operate.

The Environment Agency was created between 1989 and 1996, taking over diverse responsibilities previously held by water companies, the National Rivers Authority, local authorities, the Pollution Inspectorate and the police.

Although the agency had one of the first Audit Committees in the public sector, established in 1991, the Agency in the mid 1990's was experiencing difficulties in establishing an effective approach to risk and control. There was conflict between the various geographic and professional groups and changes in focus and working methods were causing tensions. Desired changes were not happening because of internal resistance. In particular the internal audit review process was viewed negatively and findings were not being implemented fully or in a timely way. The organisation considered that it had put into place some good risk and control policies and processes but they did not appear to be working effectively and it was recognised at the time that a change in the risk culture of the organisation was needed.

Looking at the change that was successfully achieved at the Environment Agency since that time, a number of key features from the Culture Aspects model can be identified:

Risk Transparency – risk information flowing - the Agency adopted the technique of Control and Risk Self Assessment (CRSA) workshops and rolled them out across the organisation to address risk in many different areas. The output from these workshops replaced formal internal audit reports in many areas. Most importantly, key external stakeholders, partners and contractors were also brought into these workshops (for example local homeowners opposing particular flood defence schemes). This had clear benefits in improving the flow of risk information between the Agency and its stakeholders at a local level. The results were integrated with the organisation's overall business risk process.

Informed risk decisions – the CRSA workshops led to community based solutions which were easier to implement. The Agency considers that it has become more thoughtful and focused on outcomes and ultimate customers rather than purely on engineering and scientific capability.

Risk Leadership and responding to bad news – the Agency's executive management bought into the idea of the CRSA workshops from the outset and members of the management team attended most of the workshops. Notably, they would start the workshop by giving the staff present clear permission to raise any risk issues.

Risk competence – embedded risk skills - today the Agency continues to further embed risk management and has recently developed a new approach adopted across the whole organisation. As well as providing reassurance around compliance and assurance, their new risk management approach is focussed on informing managers' decisions to help deliver more efficient and effective environmental outcomes. Applying the maxim "accountability follows geography" their managers are given the freedom and encouraged to use the tools of risk management to support their judgement in finding the best way to deliver local outcomes. The heart of their new approach is to relate all risks to one of two 'macro' risks. This creates a common understanding of the ultimate implications of their risks to their organisation and their outcomes. This can be used by their executive managers to gain an insight into operational, tactical and strategic risk management across the Agency.

Case study 6 – Dartmoor Zoological Park

Benjamin Mee is the real zoo owner interpreted by Matt Damon in the movie 'We Bought a Zoo'. I interviewed him at his 33-acre Dartmoor Zoological Park (DZP) on April 20, 2012, to discuss his attitude towards risk-taking and risk management.

DZP was on the brink of disappearance when Mr Mee and his family - having no prior experience in zoo keeping - put all of their savings and inheritance together to buy it in August 2006. They reopened in July 2007. They saved tigers, lions and other endangered animals from being dispersed or killed. They maintained and developed an important educational attraction - and the employment and economic activity it generates in the Plymouth region. They won the Eden Channel's Top Wildlife Attraction of the Year 2011 and had a major Hollywood movie made about their story.

Even this brief summary tells of a case study that lies at the high-end of the risk-taking spectrum. I was interested in learning about the owner's attitude towards risk. Visiting the tigers' enclosure and seeing Benjamin Mee put his fingers through the fence to touch their chins revealed a daring risk-taking attitude.

I learned that 'going all-in' is something he had done before in his life. When choosing a university, instead of hedging his bets and applying to three institutions as was the norm, he applied only to what he considered the best psychology program, that of University College London (UCL). "I was interviewed by UCL and they asked me: 'But what will you do if we reject your application?' I said I would apply again the next year and the year after if needed. They said: 'Then I guess we'd better accept you now!' - and they did."

Later on, as a journalist, he was invited to experiment skydiving, be photographed while doing it, and report on it for Men's Health Magazine of April 1997. "I did not want to do it" he says. But he did, of course. He explained: "You need to understand the risks involved." At the end of his article, he included comparative figures showing how safe skydiving is relative to other activities, including driving a car, playing football and … dying from venomous animals – maybe from a snake in a zoo! "I always calculate risks", he told me.

"People think I am a wild risk-taker, but I consider myself to be conservative. While I would admit that my risk appetite is larger than average, I can assure you that I always take calculated risks. I don't set up myself to fail. For instance, before deciding on making an offer for the Zoo, part of my due diligence consisted in talking to 30 other surrounding attractions to have their opinion on its prospects. The survey was positive."

During our discussions, I realized Benjamin Mee had weighed not only the opportunity, but also the potential for failure when deciding to buy the Zoo. He structured the acquisition with downside-risk management in mind - and it served DZP well during the financial and economic crisis of 2008. And when asked about the Zoo's top three negative risks, he knew exactly what they were (the weather, the risk of escapes and the risk of losing key personnel to competitors) and how to manage each of them.

DZP is an interesting example of a small organisation led by a fully invested risk-taker focusing on opportunities, but who also knows what his key risks are and how to manage them. A longer version of this case study is available through www.baldwinglobal.com.

The Dartmoor Zoological Park is located in Sparkwell, Devon County, near Plymouth, PL7 5DG (www.dartmoorzoo.org).

Case study 7 – Valve Software

"We're always creating – when you give smart talented people the freedom to create without fear of failure, amazing things happen"

Valve Software is a video game developer and digital games distribution company founded in 1996 and based in Bellevue, Washington State. It remains a privately owned, self-funded company with 293 employees and a highly loyal following amongst the gaming industry. Its 'Steam' software and platform has over 35 million on-line subscribers.

The Valve Software 'employee handbook' was an internet sensation in early 2012 when it was released attracting significant interest in their organisation culture. They maintain a 'boss free' flat organisation with no conventional hierarchy. Their view is that middle management and hierarchies would stand in the way of the 'super smart, super talented' people they have hired to be 'free wheeling' and innovative. They consider that hierarchies are excellent for maintaining predictability and repeatability but are not needed within their industry. The organisation has been structured to allow and positively encourage risk takers to join the organisation and thrive. "We want innovators, and that means maintaining an environment where they will flourish".

Valve Software support a very high reputation by maintaining high quality standards and a focus on customers' needs and expectations. This is not to say all goes perfectly. Valve Time' is a recognised as a phenomenon whereby new products and enhancements are consistently late compared to the original timetables. Valve Software are unrepentant on this however. They see deadlines as artificial compared to releasing sub-standard products.

Risk Leadership – The organisation sets the tone by the way in which it hires new staff and evaluates the performance of current employees. Hiring is slow and careful to ensure the current culture is maintained. They are looking for people capable of strengthening the current organisation. Growth has been typically 10-15% per annum but there is no externally-driven growth goal. In many ways, the hiring process is what limits Valve Software's capability and growth. We win by keeping the hiring bar high. Staff are expected to evaluate where they can contribute most valuably and join projects accordingly. All desks in the office have wheels to allow employees to move round and form into 'cabals' focused on delivering particular objectives. When the group no longer has purpose, it disbands and its members join other projects. The office infrastructure is part of the cultural messaging of the organisation.

Responding to bad news – Valve encourage people to think carefully about the products and processes they develop and recognise when things do not go well. "Some of our best insights have come from our biggest mistakes." What is not acceptable in the organisation is repeating the same mistakes and learning. People are asked to leave if they do not listen to customers or their peers. Valve Software however invests significantly in their hiring process and finds it difficult to let poor performers go swiftly. Their motto is "never ignore the evidence; particularly when it says you are wrong."

Risk governance – There is a strong mutual sense of ownership of performance. This brings with it a significant level of personal responsibility for all staff. They have faith and trust in their employees and this they believe is mirrored in the loyalty of their customers, based on the organisation's values. "We are all stewards of our long-term relationship with customers". Project teams are formed for short periods and individuals assume leadership positions for these periods.

Risk competence – The organisation is very clear that it is actively seeking risk-takers. The ability to understand and be aware of risk is very important. Their approach to risk is highly intuitive and based on a technical / scientific approach to gathering evidence. They structure this into asking three key questions:

"Ask yourself – what would I expect to see if I am right?
Ask yourself- what would I expect to see if I am wrong?
Ask yourself – what do I see?"

"No one has ever been fired at Valve for making a mistake". It is an important aspect of their innovative culture that staff are able to take risks and experiment. "Screwing up is a great way to find out our assumptions were wrong."

Risk decisions – decision making is taken very seriously, with a focus on the long-term goals of the company. Decisions are constantly tested and there is a distrust of assumptions unsupported by facts or evidence. "We believe in each other to make these decisions. And this faith has proven to be well-founded over and over again."

Rewarding appropriate risk taking – Valve Software believe in paying well and are not concerned that their remuneration exceeds peers such as Google, Amazon or Microsoft. Their view is "Valve does not win if you're paid less than the value you create." Performance management is completed by peer review to identify areas for development and by stack ranking also by peer assessment to determine who has provided the most value and therefore should be rewarded accordingly.

Valve Software have been able to grow in a sustainable way over a sixteen year period based on maintaining a very stable 'Communal' culture through close control over hiring decisions. The organisation is one with an extremely high level of Sociability in terms of the Goffee & Jones Double S model. Employees have very attractive leisure facilities within the offices and the organisation encourages families to be involved in the life of the company. Once a year all staff and their families are expected to come together on a 'Company Vacation'. Solidarity is also maintained at high levels through a focus on common objectives. Clearly the scalability of such a model is limited by the self-imposed constraints of culture and hiring.

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Case study 8 – Nationwide Building Society

Nationwide Building Society (http://www.nationwide.co.uk) is the largest mutual in the world with some £200bn of assets and is the third largest mortgage lender in the UK and second largest retail savings provider in the UK. The origins of Nationwide date back to the mid-1800s, Nationwide now has some 16,000 employees, with access to services through 700 branches in the UK, telephone, post and internet.

Managing risk is of primary importance for financial institutions; for Nationwide this means looking after the interests of its members (a mutual is not a listed company and therefore does not have shareholders).

Enterprise Risk Management Framework

Following a review of risk management at Nationwide, it was decided to enhance the risk framework under a new Enterprise Risk Management Framework (ERMF). The adoption of the new framework has been led by the Chief Risk Officer and was introduced. The five key elements of the new framework are as follows:

Risk Culture – is the system of values and behaviours present throughout the organisation that shapes risk decisions. It encompasses the general awareness, attitude and behaviour of employees to risk and the management of risk within the organisation.

Risk Governance and Control – sets out the Three Lines of Defence and how these are deployed, the committee governance structure, how risks are categorised, and standards for documentation and policy.

Risk Strategy – sets out the Board risk appetite and the strategy for risk management, connecting the Board's Corporate Plan and risk appetite with practical and detailed strategies, controls and limits to deliver this strategy without compromising risk appetite.

Risk Measurement – encompasses the use of data, models, reporting, and risk-based performance measurement, setting out standards across the Group.

Stress Testing and Planning – sets out the approach to Group-wide stress testing, scenario analysis, and contingency plans and the interaction with other corporate processes.

Figure 5.1 Character, judgement and behaviour flow model

The formal inclusion of Risk Culture is a key component of an effective ERMF. It encompasses the general awareness, attitude and behaviour of employees to risk and the management of risk within the organisation.

With thanks to Val Richardson, Business Risk Manager, Nationwide

Definition and Approach to Risk Culture

Within Nationwide, Risk Culture is defined as the system of values and behaviours present throughout the organisation that shapes risk decisions. The system stems from a risk-focused 'tone from the top' and is supported by appropriate levels of resource with the necessary skills. The Risk Culture therefore sets out:

• Our approach to maintaining a strong Risk Culture at Nationwide;
• The Risk Culture statements to which all Directors and staff are committed; and
• Required ('do') and prohibited ('don't') behaviours at Enterprise Level.

There are 16 Risk Culture statements that are grouped under four headings:

• Shared understanding and attitude
• Clear communication
• Effective risk teams
• The highest standards.

The statements relate closely to the IRM Risk Culture. Through the understanding of these statements, the aim is to ensure that all staff are risk aware, communicate effectively about risk, and work together to recognise, manage and mitigate risk. The statements also complement the internal more general cultural statements of Nationwide; together they support our customer-focused objectives and reinforce the "On Your Side" proposition to customers.

Risk Conversations

In order to support the Enterprise-level statements of Risk Culture, a new concept has been introduced, that of Risk Conversations. These are monthly events where small groups get together to discuss a particular aspect of the framework. These have been initially undertaken within the risk division, but are now being rolled out across Nationwide.

The purpose behind the Risk Conversations is to increase the awareness of risk (every member of staff should be aware of risk and is in a sense a 'risk manager'), and by doing so increases knowledge of risk management within Nationwide and helps relate the discussions to their immediate environment.

Target State

Nationwide continues to embed the Risk Culture as part of the roll-out of ERMF over a twelve-month period. The intended target state is defined as 'risk-sensitive behaviours and attitudes exist throughout the organisation, driven by a well-articulated risk philosophy, risk appetite, risk governance, and the 'tone from the top' inspiring broad understanding and participation in risk management'.

Risk Culture Assessment
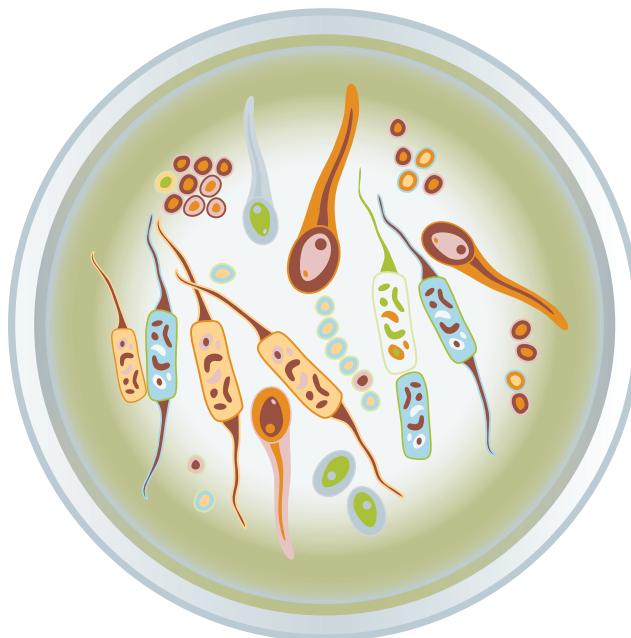
At the end of the twelve months, Nationwide intends to re-assess how embedded the Risk Culture has become using the IRM Risk Culture Aspects model. The assessment will then inform the next steps on the journey of continuous improvement for risk management in Nationwide.

Do you want to find out more about risk culture?

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