Risk culture – setting the scene

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IOR Scottish chapter, Glasgow, 1 November 2013

We swim in culture like fish in the sea; it is so natural that we barely notice it.

What do we mean by culture – what are the key words?

Some definitions of organisational culture

- The way we do things round here. (Bower, 1966; McKinsey)
- The way we *decide* to do things round here.

- A pattern of basic shared assumptions learned by a group as it solved its problems . . .which has worked well enough to be considered valid and, therefore, taught to new members, as the correct way to perceive, think and feel in relation to those problems. (Schein, 2010)

- 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. (IRM, 2012)

Some definitions of risk culture

- The shared beliefs and assumptions concerning risk and risk management that affect and are affected by an organisation's risk taking and control decisions, along with the outcomes of these decisions. (IOR, 2013(?))
- The norms and traditions of behaviour of individuals and of groups within an organisation that determine the way in which they identify, understand, discuss and act on the risks the organisation confronts and the risks it takes. (IIF, 2009)
- …organisational behaviour and processes that enable the identification, assessment and management of risks relative to objectives ranging from compliance to operational, financial and strategic. (PwC, 2009)

Key words

- Organisation
  - Individuals
  - Groups
- Behaviour
- Attitudes
  - Values
  - Beliefs
- Tradition / built over time / repeated / consistent / corporate memory
- Problems, decisions, objectives

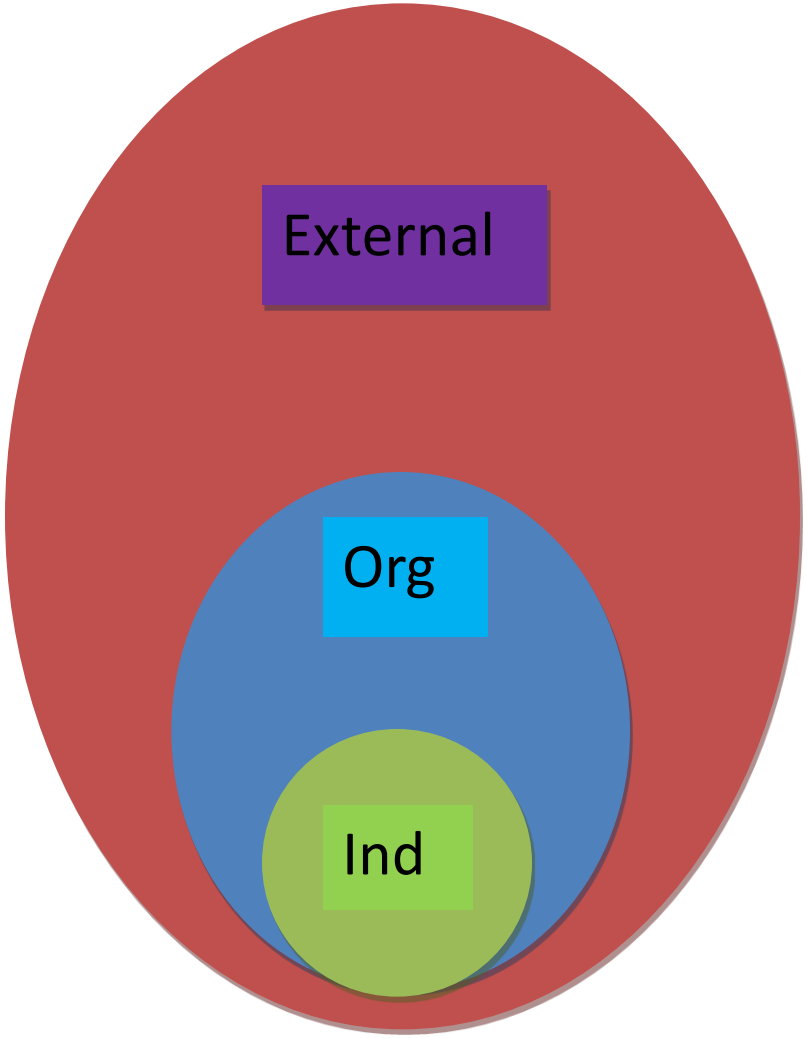
- *Never static*

Risk and risk culture, like organisational culture, is never static because of the changes in, and influences on:

Individuals

Organisation – internal

Organisation - external


External
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Who or what influences organisational culture?

- Personal / individual
  - Family
  - Friends
  - Social groups (dinner party, pub, football, girls' night out, boys' night out)
  - Social media networks
  - Print and broadcast media
  - Profession
  - Age
  - Religion
  - Nationality
  - Law
- To what extent do these influence risk culture?

‘Made in Japan’

- our reflexive obedience
- our reluctance to question authority
- our devotion to ‘sticking with the programme’
- our groupism
- our insularity

Who or what influences organisational culture?

- Organisation - internal
  - Board and senior management
  - Colleagues
  - Policy
    - Codes of conduct and ethics
    - Professional standards
    - Staff handbook
  - Organisational structure
    - Complex
    - National / products / silos
    - Flat vs long reporting lines
- To what extent do these influence risk culture?

Who or what influences organisational culture?

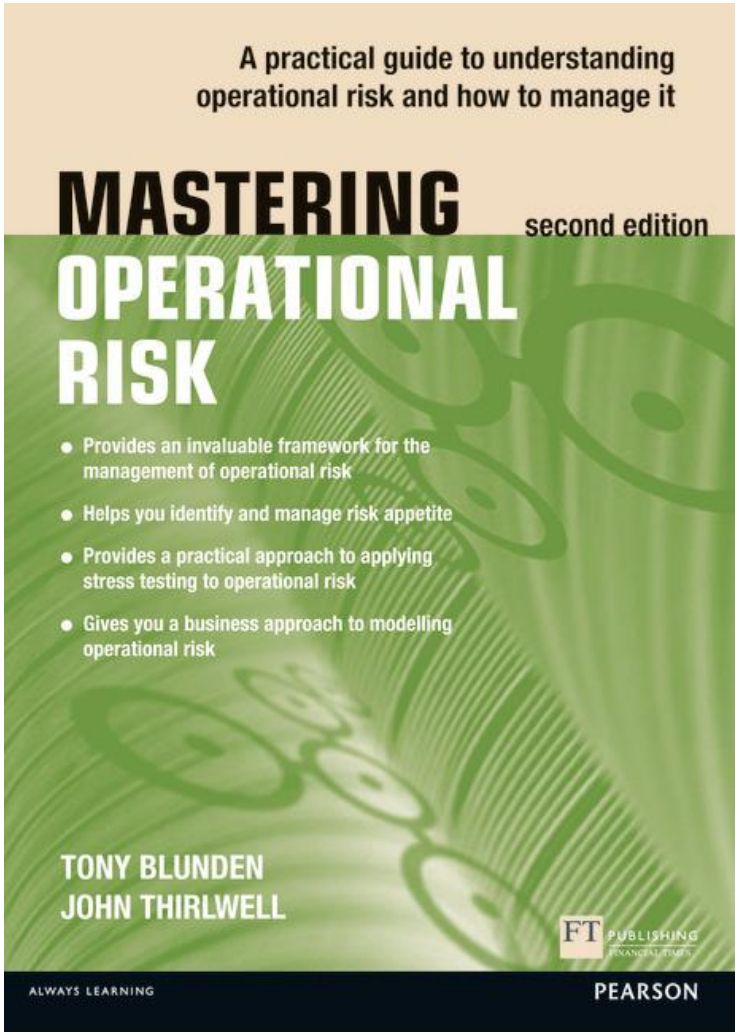
- Organisation – external (change - PRESTEL) = all stakeholders
  - Politics
  - Regulators
  - Economic (economy; competitors; suppliers; investors)
  - Social (expressed by press and politicians, social media, customers)
  - Technological (social media and reputation)
  - Environmental
  - Legal (including host country business practices, Bribery Act)
- To what extent do these influence risk culture?

Stakeholders and (reputation) risk relationship managers

Reputation stakeholders	**Reputation risk relationship managers**
Customers	Business line
Suppliers	Procurement
Employees	Management and HR
Investors	Investor relations
Regulators	Compliance
Customer interface	Support functions e.g. IT
Third-party agents	Business line
Press	Press and public relations
Politicians	Public affairs or CEO

You are the CRO

- Do you understand where in the organisation behavioural change is most necessary? If not, how will you find out?
- Which combination of levers is most likely to be effective in bringing about that change? Is such a combination different in different parts of the organisation, i.e. in different functional areas or at different levels?



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Some cultural indicators

- Controls and quality: trends in audit issues, compliance matters, claims and legal cases, bad debts
- Staff/external: customer comments, supplier feedback
- Staff/internal: staff turnover, absenteeism, staff survey/focus group, training records, expenses reports, use of whistle-blowing / ‘speaking up’ hotline

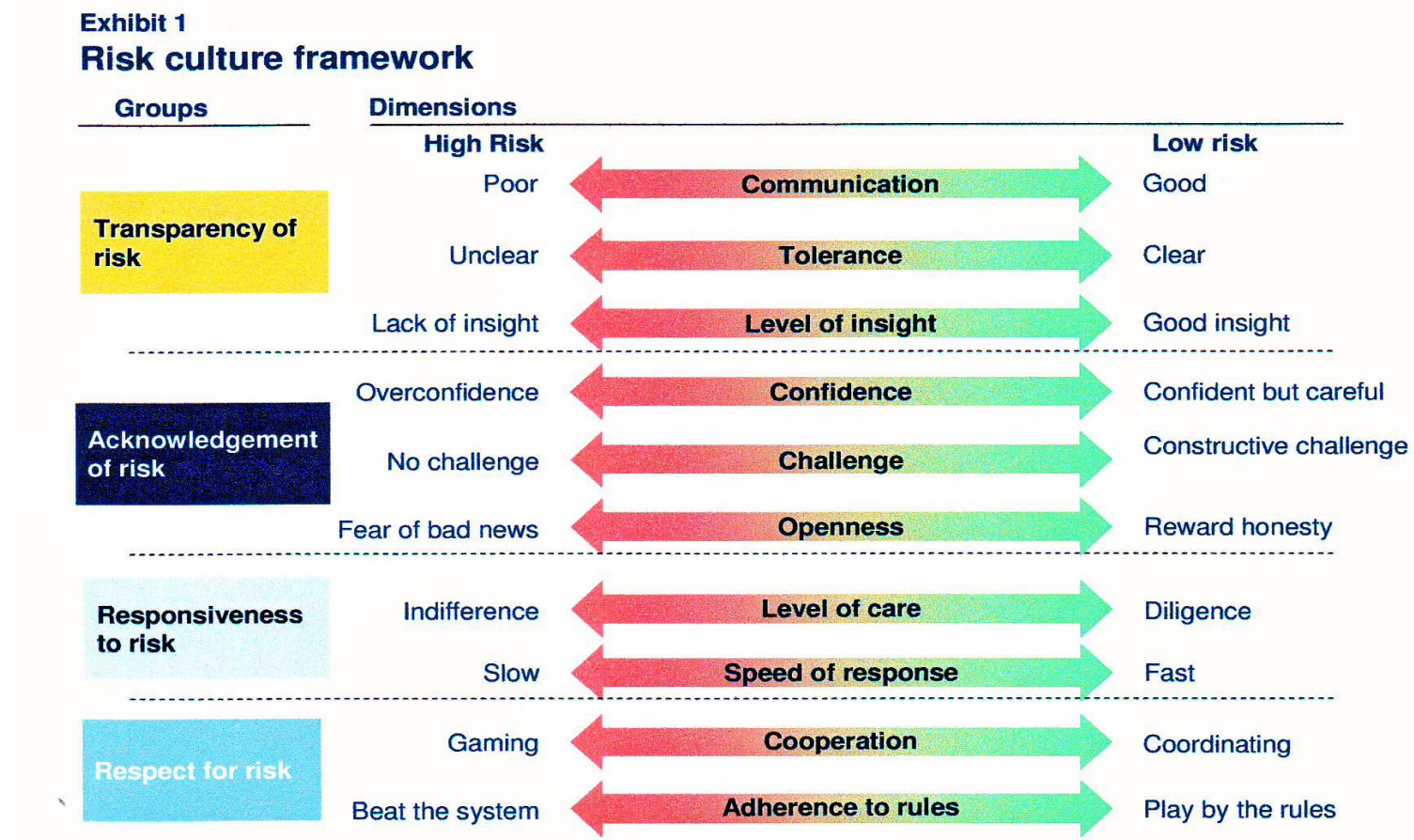
How do we know we've changed?

- Indicators
- Scorecards and surveys, e.g.
  - Cameron and Quinn Competing Values$_{TM}$ Framework (1999) [*http://competingvalues.com*]
  - Goffee and Jones 'Double S' model (*The character of a corporation: how your company's culture can make or break your business*, Harper Collins,1998)
  - Johnson and Scholes Cultural web (1992)
  - MoralDNA^{TM} [*www.moraldna.org*]

Risk culture

- McKinsey, *Taking control of organizational risk culture*, Risk Working Paper No 16, February 2010
- IRM, *Risk culture under the microscope: Guidance for Boards*, 2012
- Law Debenture online risk culture evaluation tool (www.lawdeb.com/services/board-effectiveness/risk-management)

McKinsey Risk Culture Framework



McKinsey Risk Culture Framework

- Transparency of risk
  - Communication
  - Tolerance
  - Level of insight
- Acknowledgement of risk
  - Confidence
  - Challenge
  - Openness
- Responsiveness to risk
  - Level of care
  - Speed of response
- Respect for risk
  - Cooperation
  - Adherence to rules

IRM risk culture scorecard

[www.theirm.org/documents/risk_scorecard.pdf]

Theme	Issue	Auditor qq	Expectations, evaluations					Weight	Score
Tone at the top	Risk leadership								
	Responding to bad news								
Governance	Accountability								
	Transparency								
Competency	Risk resources								
	Risk skills								
Decision-making	Informed risk decisions								
	Reward								

How to embed the right culture

- Committed leadership
- Strategy and objectives
- Values and behaviours
- Clear roles and responsibilities
- Open channels of communication
- Selection, induction and training
- Reward

TCF – Culture framework

- Leadership
- Strategy
- Decision making
- Controls
- Recruitment, training and competence
- Reward

[FSA – July 2007]

Non-finance

- Chemical – employees' personal safety e.g. Du Pont: leadership and operational discipline (zero tolerance re processes?)
- Commercial aviation – passenger safety: industry culture of speaking up
- Pharmaceuticals – patient safety: involves all stakeholders; fact-based decision-making informed by sequential trials and clear risk/benefit evaluations
- Nuclear – stress-testing at individual and organisational levels