Risk Management is about People

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Background

The motivation of risk managers can sometimes focus primarily on the development and implementation of risk management frameworks and associated processes. This can lead towards very compliance-driven risk management systems that meet the requirements of various standards and regulation but contribute little towards the management of risk. Don’t get me wrong; compliance is important but we need to focus on what risk management is primarily about, and that is people.

Risk management is fundamentally about people, individual staff members, and groups of individuals, in the case of teams and Boards that resource and oversee the management and operation of an organisation. These actors make decisions about what risks to take, how much risk should be taken, and how these risks should be managed.

Culture is often defined as “the way we do things around here.” Risk culture may be defined as “how we manage risk around here.” A more formal definition has been developed by The Institute of Risk Management (2012) and states “Risk culture is a term describing the values, beliefs, knowledge and understanding about risk shared by a group of people with a common purpose, in particular the employees of an organisation or of teams or groups within an organisation”.

It is essential that an organisation’s risk management culture be viewed as fundamental to its risk management success. Boards must understand that they are accountable for the organisation’s risk culture through setting an organisation’s risk appetite, and working closely with the Executive Team and the Chief Risk Officer to promote the organisation’s risk culture. All staff must understand that risk management is not just the responsibility of the board and senior management; everyone within an organisation has that responsibility.

It is not always straightforward to achieve this cultural focus on risk management, when risk management fundamentally requires investment based upon things that may or may not happen in the future. Risk management is an explicit expense and its true benefit is difficult to estimate and market without the value of hindsight. It is clear, however, that successful organisations leverage their risk management culture to drive success. Qantas for example trades from its significant safety record. Qantas states that they train staff to use risk tools “so that the management of risk becomes a natural part of everything we do to help embed a risk management culture” (Qantas, 2012).

Regulatory and governing body perspectives

Risk culture is an important issue for regulators and governing bodies. Some examples of how their views towards risk culture have been articulated include:

- Australian Securities and Investment Commission, comments by Chairman to Senate Estimates, 3 June 2015:

  “ASIC is concerned about culture because it is a big driver of conduct in the financial industry. It is a sad fact that bad culture leads to bad conduct and this inevitably leads to poor outcomes for consumers. Given there is a strong connection between poor culture and conduct, ASIC thinks culture is a major risk to: investor and consumer trust and
confidence; and the fair, orderly and transparent operation of our markets. ASIC is planning to incorporate culture into our roles as a conduct regulator.”

- Australian Prudential Regulation Authority, Prudential Standard CPS 220 Risk Management, January 2015:
  - “The Board of an APRA-regulated institution is ultimately responsible for the institution’s risk management framework. In particular the Board must ensure that ....(b) a sound risk management culture is established and maintained throughout an institution”.
  - “A risk management strategy (RMS) is a document that describes the APRA-regulated institution’s strategy for managing risk and the key elements of the risk management framework that give effect to this strategy at a minimum, an RMS must:... (e) outline the approach to ensuring all persons with the institution have awareness of the risk management framework and for instilling an appropriate risk culture across the institution”.

- Commonwealth Risk Management Policy (Australia), July 2014:
  - “An entity’s risk management framework must support the development of a positive risk culture”.

**A successful risk culture**

So what does a successful risk management culture look like? Some thoughts:

- Leaders champion and value risk management, communicate consistently about its importance to an organisation, and provide a role model for acceptable risk taking behaviours. Leaders actively review their organisation’s risk management culture, and work to continuously enhance it.

- All employees actively consider possible future opportunities and threats, and manage these according to the organisation’s risk appetite and ethical standards.

- Risk management is not viewed as a one-off activity but as a continuous process that is embedded throughout an organisation’s activities. Accountabilities for risk management are clearly understood throughout an organisation.

- Risk management is viewed as fundamental to the achievement of an organisation’s strategy, and is embedded within strategy development processes across an organisation.

- Employees understand risk management, and are not afraid to raise and discuss risks. They escalate risks that require further focus by senior management, and senior leaders listen, seek understanding and provide follow-up. There is a transparent two-way flow of communication about risks vertically and horizontally throughout their organisation.
• Employees actively learn from issues when they occur, asking: What happened? What did they do well to manage the issue? And what would they could do differently next time?

• A diversity of opinion exists regarding risk management to avoid group think, and allows a full spectrum of risks to be considered.

• Effective risk management behaviours are rewarded by senior leaders and inappropriate behaviours challenged.

The first step to enhancing your organisation’s risk culture is to understand how it currently operates and assists the business to achieve its objectives. How do people apply and think about risk management, and what are the opportunities and barriers to enhancing the organisation’s risk management culture. From this analysis it should become clear what areas of an organisation require the most attention.

Strategies to enhance an organisation’s risk culture are scalable and need to be tailored to the context of individual organisations, though they may fit loosely amongst the following themes:

• **Risk leadership** – Culture is led from the top. Leaders at executive and middle management levels must champion risk management consistently throughout an organisation and openly communicate about the management of risk. This requires that they fundamentally believe in the value that risk management can bring to an organisation. They need to set the tone, consistently apply the organisation’s risk appetite, and be focused on the continuous application of risk management in decision-making.

• **Understanding risk management** – All employees need to have an understanding of risk management within the context of their work. This often requires a certain level of professional development and communication to build employee risk management behaviours that are built upon the core principles of an organisation’s risk policies and appetite for taking risk. Ideally, such training and communication must allow dialogue between managers and employees to establish clear expectations and cultural norms about the management of risk.

• **Continuous communication** – Cultural change is not achieved overnight. It requires sustained continuous two-way communication, which consistently emphasises that everyone within an organisation is accountable for risk management, and that effective risk management is critical to the organisation’s success. Instilling a no-blame culture is essential to ensure that employees feel confident to raise concerns regarding potential risks. Such a culture can be supported by confidential mechanisms to raise risks when employees feel uncomfortable in an open environment. This culture should extend to the management of issues as well, however where actions have either been deliberate or reckless appropriate action should be taken, remembering that people still need to be accountable for their decisions and performance.

• **Incentive and reward** – Key performance indicators can be established in employee performance agreements about how effectively risks are managed. When positive risk management performance is observed, rewards in the form of recognition should be considered. When inappropriate behaviours are identified these should be dealt with
quickly and consistently. Inappropriate incentive systems such as providing bonuses for performance, which may encourage inappropriate risk seeking behaviours such as encouraging staff to cut corners and be reckless, need to be identified and abolished, to ensure incentive systems support the desired risk culture.

- **Recruitment** – We often seek new employees who will be a good cultural fit within our organisation. This process should also assess whether they fit the risk culture of the organisation. Hence an assessment of a potential new employee’s attitude towards risk management, and overall risk management skills and ability should be included in recruitment processes. Recruitment of a diverse workforce is also important to ensure there is diversity of views and opinions regarding risks and their management, hence avoiding group think.

- **Policy, systems and processes** – These support a positive risk culture and in essence smooth the way for effective risk management practices and behaviours. Efficiency in supporting risk management systems can reduce barriers to the effective implementation of policies and processes. Such systems will enable more effective reporting, and enable a Board or Executive to see the entire organisation’s risk picture, and communicate about risk.

Once implementation of these strategies has commenced they should be continually monitored and evaluated to assess their success, and further tailored and improved where necessary.

**The role of the Chief Risk Officer in influencing culture**

The role of the Chief Risk Officer is critical to influencing risk culture through influencing the risk management practices of fellow senior leaders. Chief Risk Officers are key to challenging the risk management culture when things are not going right and encouraging a diversity of risk management thought to be voiced. Their roles should not be buried within other functions such as compliance. Fundamentally risk managers are not just system managers, they are change managers, with the role of influencing the culture of risk management within an organisation, and challenging the management of risk.

**References**


