Embedding a risk management culture from the top down

For any risk management policy to succeed an organization’s senior management plays a vital role, including the Board of Directors. This paper focuses on the role of the Board in the definition of an organization’s risk culture and explores the practical considerations Boards should take into account when determining, implementing, monitoring and sustaining a risk culture.

Without the right risk culture the policy, process and performance of risk management will run into difficulties. This is acknowledged within ISO 31000, the globally recognized risk management standard, as necessary in order to implement and maintain a successful risk management process. With increasing numbers of regulations it is becoming ever more important for Boards to take a leading role in defining and overseeing an organization’s risk culture. It is essential members of the Board are confident that at all levels individuals are behaving in a manner that reflects the organization’s chosen approach to risk and its management.

An organization’s risk culture set from the top, influences the decisions made by everyone within a business. A prime example of this is the global financial crisis which the world has just experienced. Here excessive risk taking behaviour within financial institutions was rewarded with large financial gains. The US Risk Management Society (RIMS)** states that the crisis resulted from three key elements:

1. A system-wide failure to embrace appropriate enterprise risk management behaviours
2. An apparent failure to develop and reward international risk management competencies
3. A failure to use enterprise risk management to inform management’s decision making for both risk-taking and risk-avoiding decisions

Setting, communicating and embedding the right risk management culture has a significant impact on how employees perceive “the way we do things round here” and how they action all aspects of the risk management process. Many organizations at the heart of the crisis where found to have formulated adequate controls but senior management had not been rigorous in making sure that they were adhered to. Setting the right “tone from the top” not only keeps the whole organization on track and ‘self-policing’ but open communication of risk information ultimately leads to better informed decision making.
The process of changing risk culture

While there are many models available to identify and address risk culture there are four main steps for any Board to consider initially:

1. Identify the desired future state of the organization’s risk culture. What is the end objective – what does success look like? Is there a specific problem or lapse to be addressed? Look for examples of what is currently deemed to be good risk culture within the organization and talk to peers in other organizations.

2. Identify the current risk management culture. This can be done through surveys, interviews and workshops. In addition, it is important to consider those elements that are more intangible, for example the stories, habits and informal ways of managing risk that will deliver insights into how the culture really works.

3. Define a roadmap to close the gap between the current and desired states, and allocate the appropriate resources. It is important to prioritize actions and determine “quick wins” that can be used as success stories to encourage further change.

4. Implement the roadmap and monitor its success. People behave as they are measured, therefore it is vital that performance metrics are established to track and encourage sustainable changes in behaviour. Encourage good behaviour, for example, allocate resources to projects based on the evidence of adherence to the risk culture and process. Celebrate and share best practices. Where results show little change, alternative different approaches should be defined and tried out.

Activities to change risk culture

It is common practice for organizations to try and control behaviours through the development of processes as it is perceived to be the easiest way to change cultural traditions. However, people will be people and even if they know the behaviours expected around risk management, they may not act in the way required if it does not agree with their personal beliefs and values.

So how can Boards help ensure that the required risk management culture is encouraged?

There are three areas where Boards can mandate specific activities that will impact risk culture.

1. Clear information must be provided to set employee expectations around risk management activities. Regular and frequent communications should address topics such as why risk management is important for the organization and for the individual, what risk management activities are taking place and how the risk process works. Having an integrated, enterprise-wide risk management software system like Active Risk Manager (ARM) assists in this area as it has role-based input and reporting designed for all levels of user involvement. Additionally ARM’s Collaborative Workshop Solution (CWS) can be used to facilitate employee risk workshops throughout the business to both identify risks and opportunities and to help embed the risk culture deep into the organization.

2. The provision of the right tools to support the required behaviours, such as training and resources (financial, human resources and IT). Risk management should be respected as a profession with a clear career path, training programme and recognition for how the discipline contributes to business goals.

3. The provision of incentives and sanctions such as linking risk management behaviours to performance objectives that are themselves linked to remuneration targets and funding.

Lead from the front

The single most important factor is that the culture at Board level sets the tone for the rest of the organization, and as such, it is important for Board members to have sufficient self awareness to understand how they and their colleagues react to and participate in the risk process. For example the importance of risk should be reflected in the resources made available to risk activities and the attitude to risk personnel. Senior risk personnel should have access and direct lines of communication with senior management as required and the Board where necessary.
An appropriate risk governance structure, with clear responsibilities for the Board, Risk Committee and the other groups which are involved, shows that the business is taking risk seriously. Ensuring risk discussions remain on meeting agendas, even when time is tight, gives another clear sign to the organization. The Board must also ensure that management follows its own risk management policies so that employees know that non-compliant behaviour will not be tolerated and that the organization takes risk management seriously.

**Summary**

Developing an appropriate risk culture is a journey rather than an instant solution. It requires moulding the behaviours, beliefs and values of employees. It is about making a clear connection in the minds of all personnel that the success of risk management drives both the success of the organization and helps them meet their own personal objectives. It means changing “the way we do things round here” so that talking and thinking about risk becomes a part of the organization’s DNA. The Executive Team plays a vital role in leading by example to develop this culture by setting the “tone from the top”, both in actions and through effective communication facilitated by an integrated enterprise risk management software solution.