

[Introduction]

With the rapid behavior changing disruption of recent years, and the ongoing stream of corporate governance failures. ACCA has been digging deep into how interconnected risks such as climate change and geopolitical issues are influencing the way we approach risk management. This podcast series will look at what risk culture means and to what extent risk and accountancy professionals understand its impact on performance.

[Voiceover]

The Financial Conduct Authority described the healthy culture as one that is purposeful and safe. But how do risk leaders help drive this Julia Graham, chief executive of AirMech, the risk management trade body.

[Julia Graham]

Risk managers work with other functions to add value. And I think one of the reasons that happens is that the psychometric profile of a lot of people who are typical risk managers is that they like to network, they'd like to collaborate, they like to bring other groups together. And those type of people are very good in the risk management function, because they can bring together other functions like finance, internal audit, human resources, technology, and they become, if you like the interpreter of what the organization is trying to achieve, they don't have all the answers, and they don't intend to have all the answers. But what the very good typically at doing is eliciting answers from others,

[Voiceover]

Being purposeful really relates to the social value created. So why are we here, and who would miss us if we didn't exist?

[Julia Graham]

Touching on the subject of purpose. And I'll talk a little bit about how purpose has evolved and where I think it's going. Purpose is not a new subject. But I think it's become very important in the world that we live in today. Certainly, in the last three years, as we've become very complex, very connected and fast moving. Organizations have really come to believe that they need to revisit why they exist, and who they exist to serve more frequently than they've done in the past. So you'll find I think a lot of organizations re-examining those aspects of who they are. And I think in the future, you'll see organizations doing that even more, because when you think about it, purpose drives your culture, it drives your vision and your beliefs. And if you don't renew those things, to the same speed, as the world is changing around you, there's a great chance that you will get left behind. And what you can find is that the risk appetite, for example of an organization can be out of sync with the way the organization wants to behave going forward. So you could have some wonderful opportunities as an organization and then find that having an out of date, purpose drives and out of date, risk appetite and therefore you fail to convert the opportunities, because don't let's forget that managing risk is not just about preventing bad things, it's also about allowing good things to happen. And therefore an out of date, purpose can inhibit your growth in the direction that you want your organization to travel in.

[Voiceover]

Julia explains why organizational purpose is always evolving.

[Julia Graham]

So one of the subjects I want to touch upon is on the lips of everybody, I think, at the moment, and that's the subject of artificial intelligence, or AI. And I do think in the future, it is a subject that's going to touch all of our lives. How does it influence purpose, while again, if you're in a particular business, and you believe that artificial intelligence is going to affect the way that you deliver that purpose, and your objectives, both strategically in the longer term, and operationally, in the short term, if you don't reflect artificial intelligence in your thinking, you could again, be in big trouble. Let me give an example. You are a publishing company or an education company, an artificial intelligence can deliver some of the solutions that you provide as a business. If you don't adjust to that situation, and assess the risks associated with artificial intelligence, you will find yourself in severe difficulties, and certainly at risk of being able to fail in the delivery of what you

want to achieve. So you have to recognize it, not just as a threat to the way that you do business. But the very core of what your business is.

[Voiceover]

Julia also emphasizes the importance of trusted, responsible leadership.

[Julia Graham]

I'd like to talk a little bit about the impact of risks on society. In addition to the fantastic report that we're talking about today, There's also an annual report that many of you will have come across called the Edelman Trust Barometer. Very interestingly, in 2023, and their report that was published at the beginning of the year, is now very clear that people and employees look up to companies to take leadership on issues like existential risk, or social threats. They're not really looking governments, and one of the reasons for that is the degree of trust. Where do people place their trust? Well, that barometer and the research that we've done, is telling us that they place trust in the organizations that they're part of. So that's really demanding that the leaders of organizations rise up and take the challenge. And I think risk leaders as part of that challenge have got a very important role to play, because they can support the leaders of their organizations by helping them to understand where the risks and opportunities reside in their own organization, and bring their peers and colleagues together to help understand where those might rest. So gone are the days where you can operate in a silo, that doesn't exist anymore. There is no room for silos in our world today or in the future, we have to learn to cooperate and collaborate much more effectively than we've done before, both within organizations, across organizations, and hopefully, with those organizations influencing governments and regulators to come on board and support their thinking.

[Voiceover]

Risk management is part of an organization's DNA, and therefore involves everyone.

[Julia Graham]

So finally, let's focus on the subject of regulation. This is a really interesting one at the moment in the world of risk management. We've been talking to regulators, for example, here in the UK, and they're listening to the risk profession about how they think the risk management aspects of regulation should be addressed in the future. And what we've been saying to the regulator, a couple of things. First of all, when you set out regulations, don't just give people guidance on what they should and shouldn't do, but give them guidance on how they do what they should and shouldn't do. I think there's a responsibility that rests on the shoulders of regulators to help educate those that they regulate. And therefore, I don't think now you can issue a code and say, Well, this is what you have to comply with, I think you have to give people some idea of how they comply. The other issue we've been talking to the regulators about is the danger of static behavior, I think is the right word in reaction to regulation. Let me give you an example of that. Recently, I gave a presentation, which caused a few gasps in the room, actually, which was good, because that's what I wanted to do. Where I had a slide with a bonfire on the slide. And people in the audience said, and this was an audience of regulators. And they said, Well, why have you put a bonfire on the slide and I said, this is what I think you should do to things like risk registers that are static. We live in a dynamic world. And if you don't have dynamic risk management and dynamic regulation, then you may as well put the risk registers that you've got on a bonfire and set fire to them because they're useless. In fact, they're worse than useless, because potentially a static risk register that is out of alignment with what is happening in the world can make you travel off in the wrong direction and take poorly informed and bad decisions. So if you're going to have risk registers, and And on a more serious note, I do think that they have a place by the way, you've got to make sure that they and your approach to risk management is dynamic and embedded in your organization, and is not trailing behind and dragging your organization back, but again is helping them to achieve opportunities.

[Voiceover]

Stay tuned for more insights on how effective risk cultures can help organizations get them to where they want to be today.

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