Risk culture: Calls to action

While we see risk and financial leaders taking greater interest in their organisation's risk culture, this is often prompted by something that has already happened. Our aim is to help them better understand how risk culture can be a competitive advantage, as famously phrased, 'Culture eats strategy for breakfast'.[1]

1. The authority of the chief risk officer (CRO) or people in charge of risk is key to improving risk culture

Empower risk leaders to drive risk culture. Risk leaders should share their knowledge across functions and do so by speaking in a clear and concise language others can relate to, allowing them to gain more trust and mutuality in influencing behaviours and making the mindset shifts needed to manage risks and seize opportunities successfully (Primeau 2021). When bosses engage and talk about mutual interests that are critical to the organisation, such as the key performance indicators (KPIs), people feel safe and more involved in matters that ultimately affect them. A risk culture without such mutuality is a recipe for mediocrity at best.

THOSE ONLINE SURVEY RESPONDENTS THAT SAID THEIR ORGANISATION HAD ALREADY CONDUCTED A RISK MATURITY ASSESSMENT WERE GENERALLY MUCH MORE CONFIDENT IN THEIR ORGANISATION'S RISK CULTURE AND ABILITY TO DETECT, REPORT AND MANAGE RISK.

'Leadership is not about job titles; it is how you influence relationships. For example, if a medical doctor advises a patient about a health condition, and the patient believes in what the doctor advises, there is a mutual agreement. The doctor isn't forcing the patient to act on the advice, the patient does it because of trust in the doctor's judgement. When people know you are competent in your role and can bring a solution that is acceptable to them, they naturally give you power.'

Joachim Adenusi, (Oga risk) enterprise risk leadership and sustainability consultant

'If risk leaders can't influence major decision makers, then everything they do in risk assessment and reporting just becomes an academic exercise.'

James Lam, founder of the ERM Institute, and author of *Enterprise Risk Management: From Incentives to Controls* (Lam 2003/2014; James Lam & Associates 2023)

1 'Culture eats strategy for breakfast'. The phrase was attributed to the management guru Peter Drucker in 2006, and made famous by Mark Fields, who later became chief executive of Ford Motor Company. It implies that any company that disconnects the two puts its success at risk.

2. Resist the danger of tunnel vision when faced with a multitude of risks. Develop more structure for conversing and convening instead

Today there is an understandable tendency for people to focus on the immediate issues in their roles, even if conflicting actions within an organisation can mean that some risks are ignored. It is also during times like these that diversity of thought is most urgently needed, so that the organisation is not blinkered and stymied in its solutions when it can least afford to be. Instead, the organisation must promote a culture of roundtable engagement, where people from different roles and levels convene, exchange ideas and insights, and know they are free to speak up. Getting risk conversations elevated up and cascaded down the organisation is the secret sauce of a successful risk culture. Through our research, we found shadow boards and mid-level risk committees to make profound differences (Conmy 2023).

40% OF OUR SURVEY RESPONDENTS DID NOT BELIEVE THAT RISK IS SUFFICIENTLY DISCUSSED ACROSS ALL LEVELS OF THE ORGANISATION, AND OUR ONLINE-COMMUNITY PLATFORM REVEALED SEVERAL REASONS WHY DIFFERENT FUNCTIONS IN AN ORGANISATION MAY OR MAY NOT BE ALIGNED: FROM 'TICKING BOXES' TO THE BOARD AND SENIOR MANAGEMENT TALKING IN A VACUUM.

'I have worked a lot more with our chief HR [human resources] officer, given the uncertainty and workplaces changes, and the benefits are mutual. Siloed functions just breed risk, and you see how sharing knowledge allows you to connect the dots and work things out more quickly.'

CRO at chemicals company based in Europe

'Our chief risk officer function covers code of ethics, risk and compliance and all of our committees across the company cover these three disciplines. We work closely with HR on these, but we are the one responsible for issuing and developing the training and learning around the code of ethics. We have recently bolstered our business conduct team with a centralised investigations team so that we can improve our psychological safety and make sure that any business conduct-related matters are investigated in a centralised function that is independent of the first line of defence. So, it really is a partnership with HR.'

Head of risk and compliance at a power company

3. Behavioural analysis can be a highly effective tool in detecting emerging risks, but it is imperative to have buy-in and engagement from the top

Behavioural analysis provides rich insights about stakeholders' behaviours and attitudes that do not make it into risk registers or quarterly reports. However, risk and financial professionals must ensure that senior management are optimising that knowledge by linking it to strategy and policy. Leaders may turn to behavioural analysis after something goes wrong but are they using it to improve corporate governance, due diligence, and decision making? Our research shows that even those firms that do take this seriously have a way to go before behavioural risk analysis teams and the indicators that they develop are properly entrenched into risk strategy.

'In credit risk modelling you can look at the top five metrics and say that they capture 80% or so of the risk. We currently don't have that in the culture and conduct space, but the benchmarking exercises happening in some jurisdictions are getting the banking world more focused on data sources, and many are using AI [artificial intelligence] and big data to monitor trends and detect those unusual or "off" behaviours that may indicate a risk.'

Behavioural risk management consultant in London

RESPONDENTS WHO WERE VERY CONFIDENT THAT THEIR ORGANISATION WILL DETECT UNEXPECTED BEHAVIOURAL OR MISCONDUCT ISSUES WERE ALSO MORE LIKELY TO HAVE SAID THAT THEIR ORGANISATION HAD CONDUCTED A RISK MATURITY ASSESSMENT OR AUDIT OF ITS RISK CULTURE. THEY ALSO WERE MORE LIKELY TO BELIEVE THAT ACCOUNTANCY PROFESSIONALS HELP IN ASSESSING RISK CULTURE AND ITS IMPACT ON THEIR BALANCE SHEET AND BETTER UNDERSTANDING AND MANAGING NON-FINANCIAL RISKS.

4. A 'tick the box' compliance approach cannot be a substitute for risk management

Organisations should focus on the outcomes that rules and regulations seek to engender. In highly regulated industries, such as in financial services, compliance is a complex affair and, as our research reveals, regulatory change is the top risk priority for organisations today. One respondent, for example, referred to risk reporting as a 'regulatory tsunami'. In many ways, however, a compliance culture is the antithesis of a good risk culture. A fixation on 'box-ticking' exercises can render the organisation blind to the real risks it faces in its specific environment. Whereas an effective risk culture enables the organisation's people to understand and take on the right risks in an informed manner, and rewards them for this, a preoccupation with compliance can leave an organisation without the proper bearings to judge the risk landscape in which it finds itself. Organisations today also tend to fall into the trap of treating ESG issues as a compliance exercise rather than focusing on the outcomes that such principles are meant to deliver. We found that most companies still fail to link risk or ESG with value creation.

'There's a compliance tendency at the front line – a kind of parent-child dynamic. What's missing is an adult-to-adult dynamic where we can acknowledge that our own staff are intelligent people and have their own ethical views, and they're looking for ethical engagement.'

Dr Roger Miles, a specialist in behavioural science who is also member of ACCA's risk culture special interest group

'The rising cost of compliance could force industry consolidation. If we're not prepared, we could go out of business.'

CRO survey respondent

RESPONDENTS IN OUR SURVEY OVERWHELMINGLY CONCLUDED THAT THE G IN ESG NEEDED UPGRADING IF THEIR ORGANISATIONS' OBJECTIVES FOR THE E AND THE S ARE TO BE ACHIEVED. THE POWER OF GOOD GOVERNANCE LIES IN ITS ABILITY TO INFLUENCE BEHAVIOURS BOTH AT A FIRM LEVEL AND A TEAM LEVEL. THIS INVOLVES SPELLING OUT SUBTLE DIFFERENCES BETWEEN RESPONSIBILITIES, ALIGNING WHAT ONE PERSON OR FUNCTION MIGHT BE DOING WITH ANOTHER, OR DECIDING WHAT MIGHT BE MOST APPROPRIATE FOR EACH AREA TO OWN AND ENSURING THAT THOSE RESPONSIBILITIES ARE FULFILLED.

5. Consider how you define the role of accountants in risk culture, given rapid transformations

How accountants are explicitly tasked with reconciling ethics with profits alongside other responsibilities needs more clarification during volatile times. As organisations attempt to embed risk into strategic decision making across all activities, they should ask themselves what makes sense and what adds value. For example, where can we free up or find the energy and resources we need to improve our risk governance and meet changing and rising stakeholder expectations? If we need to cut costs, can risks be sufficiently managed so that business objectives can still be met? The complexities of today's evolving business models mean accountancy professionals should be reviewing any conflicts with stated values and deciding whether opportunities are in line with desired ethics.

'Accountancy is already under so much pressure to put numbers on intangibles, and the fundamental point about the financial accounting way of looking at the world is that it is simply nowhere near sophisticated enough to capture the true complexity of what organisations are trying to deal with. Using numbers to describe the world provides a sense of order and shared understanding but that comes at the price of simplification. In modern organisations you need a way of representing culture and leadership that enables a richer and more accurate view of what is happening, and it cannot be only the accountants' job to do that. To paraphrase Michael Schumacher, "the hardest thing to see is the eye you're looking through".'

Dr David Cooper, leadership specialist at Cooper Limon, and member of special interest group

THOSE SURVEY RESPONDENTS MOST CONFIDENT ABOUT THE BENEFITS OF ACCOUNTANCY PROFESSIONALS FOR ASSESSING RISK AND NON-FINANCIAL RISK-RELATED ISSUES WERE ALSO MORE LIKELY TO EXPRESS CONFIDENCE IN THEIR ORGANISATION'S RISK CULTURE.

6. Risk appetite is difficult to implement given the speed with which risks arise today, so better communication is paramount

In the absence of a clearly defined risk appetite, decision-making will ultimately be reduced to personal judgement, which can depend dangerously on inference and is subject to bias. This leads to a culture of inconsistent behaviours within the organisation, which in turn leads to mistakes and fragility. Risk and accountancy professionals must involve mid-level management in both defining risk appetite and monitoring how it is employed. Since the articulation of risk appetite helps guide and inform behaviour, and therefore culture, communicating its purpose well and defining which risks are and are not acceptable are vital to building a robust risk culture.

'Risk appetite helps navigate business activity in the organisation, but it is the risk culture that determines how [staff] act, and how they approach different issues. So, risk appetite should be aligned to strategy and business capabilities, because all of us need to move in the same direction.'

ACCA CROs Forum

'We need to think about the language if we are all agreeing we need to get risk better integrated into the first line [of defence], and we cannot do that by dragging [other people] to our sandbox, we need to go to their sandbox and say "let us understand how you make decisions in your jobs and how you consider risk".'

James Lam, founder of the ERM Institute, and the world's first 'chief risk officer'

WHILE ALMOST 80% OF RESPONDENTS SAID THEY HAD A GOOD UNDERSTANDING OF RISK APPETITE IN THEIR ORGANISATION, THIS CONTRADICTED OTHER RESPONSES WITH OVER ONE-THIRD SAYING THEY DO NOT HAVE CONFIDENCE THAT INTERNAL AUDIT COULD VERIFY WHETHER PROPER INTERNAL CONTROLS AND PROCESSES FOR DEALING WITH RISKY BEHAVIOURS WERE IN PLACE AND BEING ADHERED TO.

7. Whistleblowing – eliminate the fear factor and focus on treating people fairly

Human beings' behaviour is a response to their environment. Therefore, risk and financial professionals should ask what the organisation is doing to contribute towards the manifestation of human risk. What part does it play in a misconduct incident and how does it influence good conduct?

Risk and accountancy professionals, in their various roles in setting up the appropriate risk governance processes, need to think more about the human beings they are trying to influence. It is easy to blame people for how they behave but speaking up is a behaviour that organisations can encourage.

Patrick Butler, a member of our special interest group, has talked about how to create a 'hands up' culture through visibility and leading by example. As a guide, he recommends *The Power of Followership: How to Create Leaders People Want to Follow and Followers Who Lead Themselves*, a concept developed by scholar Robert Kelley, who postulated that followers are more important than leaders for not only getting the job done but also supporting innovative thinking and job satisfaction (Kelley 1992).

'A few years ago, I was in a roundtable with CEOs and asked them what is feared most in their organisations and how that impacts their work. They replied, "fear of not hitting targets". This is one of the biggest problems within organisations, and why people will not speak or stand up and say I'm going to try something new. They do not want to put themselves at risk because they don't trust the organisation to treat them fairly if something doesn't work and impacts "clear but frequently short-sighted targets", even if it's intended for the good of the business and its clients.'

Patrick Butler, board chair, Net Zero Labs and adviser on culture and conduct Management, and member of the special interest group

8. Measure and incentivise the risk culture you want by making sure 'everyone owns it'

Everyone should be responsible for risk and understand their risk footprint, because a better understanding of risk ownership – 'you are what you risk' (Wucker 2021) – enhances working relationships and job satisfaction. A 'four-point plan' to do this could be to:

1. state your desired behaviours and define the outcomes you want to achieve with them in a document that everyone reads, a 'Behavioural Framework'
2. ensure that the CEO and senior managers at all levels role-model the desired behaviours
3. write down and discuss behaviours, not just core business individual performance metrics, in one-on-one objective conversations, and then choose a shortlist of behaviours that are most relevant to the particular situation and individual
4. reward desired behaviour in the same way you reward any other type of performance, ie, financially, for example '25% of managers' bonuses are based on how they went about their work, not on what the outcome was'.

You need to build a risk nervous system, a risk ecosystem that makes every employee a risk manager, making every employee responsible for their respective risks and processes.'

'Risk management needs to be embedded in the organisation's DNA and be much more dynamic.'

'Active participation is the only way to ensure a culture reflective of our goals.'

'Risk is a mindset not just a process. Mindsets are important.'

Comments from on-line community pop-up

9. Governance starts with role clarity and hence knowing who is responsible for what

Make sure you know what you're individually liable for – don't wait for someone to tell you or train you. Saying 'I didn't know' is not going to get you off the hook. Individual liability means just that. It is up to you to know how you need to act at a given time.

Additionally, leaders must ensure there is a clear distinction between responsibility and accountability. For every role it should be written where responsibility and ownership lies but also crucially where accountability lies. This is particularly important for managerial roles because accountability means that someone must be held accountable when even the responsible employee lower down the ranks fails or contributes to a failure.

'An effective risk culture is not a matter of risk assessment or level of compliance; it is a matter of individual ownership of risk and personal "conviction" – a state of mind where human beings own the risks and the process of managing those risks through making well-informed risk decisions because they want to, not because they have to: driving value through optimising risk management rather than [creating] a culture of compliance where they will do only what is required.'

Horst Simon, risk culture builder and member of the special interest group

10. Further cooperation between our professions and regulators will be beneficial for all

With a tidal wave of corporate compliance rules coming into force across all industries, it is clear that the regulators will be driving culture, conduct and other non-financial risks further up the agenda over the coming years. ACCA, Airmic and PRMIA, along with other industry bodies, intend to expand and coordinate our consultations with regulators to ensure that risk and financial professionals are well-informed and that communications between practitioners and the regulators are more meaningful. We need to have a multi-stakeholder approach if we are to develop regulations that lead to "outcomes" rather than a "being compliant" style of management.

'It's fashionable to say "yes" to the regulators "we're very concerned about risk culture and culture and conduct risks", but there's also the element of "it's kind of hard to measure and if you can't measure it, you can't manage it". Training on this is what the industry needs because in the banking world a lot of people are still playing lip service. It's hard to do something about it. It's nice to talk about it, but taking that next step is difficult.'

Non-executive director at a global bank

Keep it simple: culture conversation-starters

Figure 1 gives some ideas for initiating discussions on risk culture.

FIGURE 1: Discussing risk culture

Source: adapted from Dr Roger Miles