

Risk culture: Executive summary



First of a kind

ACCA, Airmic, and PRMIA have teamed up to examine the relationship between risk culture and long term performance. A global survey, roundtables and one-on-one interviews were conducted to gauge how members of our professional bodies are addressing risk culture at their organisations. The online survey attracted 1,823 individual responses from risk and financial professionals around the world and across a range of industries. 93% of respondents were ACCA members so therefore come from accountancy backgrounds, giving the research a unique scope and authenticity. The survey was complemented by an online community pop-up platform and interviews that allowed us in the end to reach over 2,000 individuals.

The results revealed an overconfidence about the effectiveness of risk cultures, with a mix of risk perceptions and scepticism across different roles and hierarchies. Interviews also showed how risk and financial professionals often struggle to get the necessary commitment to create the risk cultures and governance needed to facilitate their strategy and where risk management fits into it. This is due to the warning signs of failures waiting to happen, but respondents recognise that a strong risk culture is essential to avoid them.

What is risk culture and why is it important?

Risk culture is becoming increasingly recognized as a means of tackling and preventing governance failures. The Basel Committee on Banking Supervision defines risk culture as norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and controls that shape decisions on risks. We found individual values, beliefs and attitudes towards risk to be naturally influenced by the wider overall culture of an organisation.

Risk culture is difficult to measure and involves participation up and down the organisation. More regulators are prioritising risk culture and asking firms to demonstrate how they manage human capital to assess the broader culture, behaviours it breeds, and risks it might drive. This requires understanding the wider context of overall workplace culture and avoiding narrowing the focus to conduct. The behaviour-changing disruption of recent years also poses new questions about what constitutes 'risky behaviour' and how it spreads.

This report highlights the benefits of getting the risk culture that is right for your organisation. This starts with a new generation of management reporting information (MI) that many members of our three professional bodies have yet to grasp. Some banks have invested in developing the metrics, but we found most risk and financial leaders are still struggling to use it strategically.

Survey respondents rank regulatory change and cybersecurity as top risk priorities

The survey found that while 'box ticking' is prevalent, there is growing interest in risk culture to cope with disconnected organisational cultures and hard-to-detect breadth of risks. 'Regulatory, compliance, and legal' risks were the top priority for organisations, with 'technology, data, cybersecurity' and 'regulatory, compliance and legal' being in the top three for all sectors except not-for-profit and charities (Figure 1). By region, regulatory, compliance and legal risk was the top or close to the top, with North America ranking 'technology, data and cybersecurity' significantly higher than the rest. African respondents were more likely to be concerned about 'misconduct, fraud and reputational damage' issues, something that was not a major concern for those in Western Europe. 'Economic inflation and recession' topped the list of risk priorities for UK respondents (Figure 2).

Financial services were more likely to raise 'technology, data and cybersecurity' and 'regulatory, compliance and

legal' as their highest risk priorities, while 'logistics and supply chain' issues were one of the corporate sector's top risk concerns. The outliers by age were the over-65s, who put economic concerns as first, then cybersecurity, followed by talent scarcity.

Our research found that risk culture affects an organisation's ability to deal with constant regulatory implementations. Through our conversations with respondents, we learned how 'being compliant-style of management' has become a core driver of corporate strategy, with the Russian invasion of Ukraine and Covid-19 now only part of a perma-crisis norm. Climate change, for example, has become increasingly compliance-intensive and less about risk strategy, having come second to last overall as a priority. Cyber risk is a priority for everyone due to the unavoidable threats and need for subject matter expertise. Leaders worry about retaining data security or IT teams due to outdated education models on risk governance.

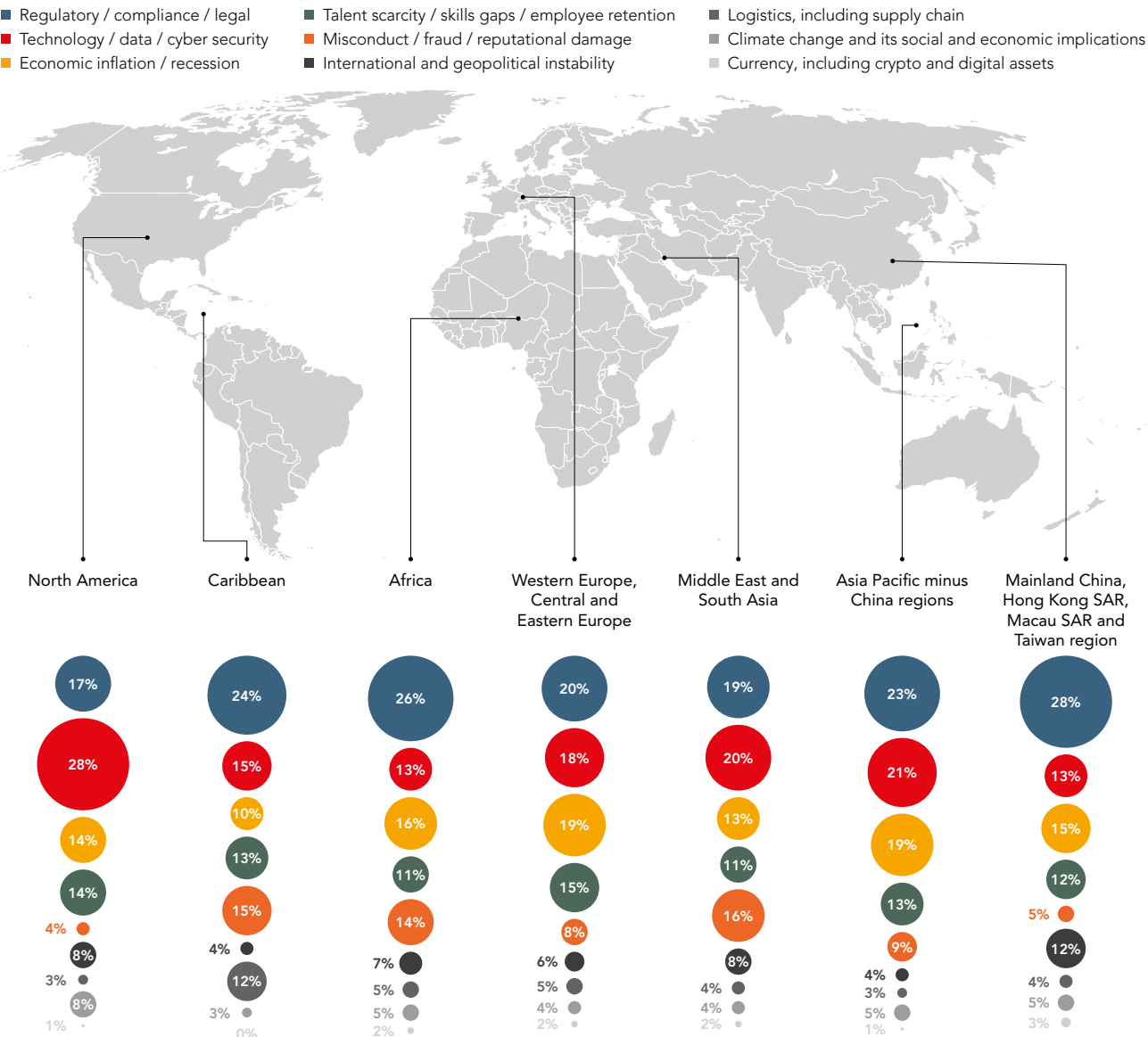
FIGURE 1: Top risk priorities by sector

SECTOR	1 st RANKED	2 nd RANKED	3 rd RANKED
Public practice	46%	44%	39%
Public sector	41%	39%	38%
Financial services	46%	36%	34%
Not-for-profit / charity	43%	40%	39%
Corporate sector	42%	40%	36%
Retired / between jobs*	43%	41%	38%

*Based responses on previous place of work
(Data rounded to nearest whole number)

PLENTY OF 'BOX TICKING' IS PREVALENT, BUT THERE IS ALSO A GROWING INTEREST IN RISK CULTURE TO COPE WITH DISCONNECTED ORGANISATIONAL CULTURES AND HARD-TO-DETECT BREADTH OF RISKS.

FIGURE 2: Top risk priorities around the world



(‘Don’t knows’ remain the balancing figure for each region)



57% of respondents say that their culture has changed for the better since the pandemic

When we asked about risk culture, most respondents, irrespective of sector or organisational size either agreed, or neither agreed nor disagreed, that their organisation's risk culture had improved (Figure 3). Respondents in China were generally much more confident in their organisations' risk culture compared to other countries, but interestingly ranked 'regulatory, compliance and legal' its top risk priority. There also was a positive correlation between those strongly 'agreeing that risk culture informs strategy and detects risky behaviours' and 'having a positive perception of accounting professionals being able to measure the hard-to-detect risks'.

Overall, we found that there is a will to improve risk culture, but the post-pandemic environment is challenging due to scarce resources, rising costs, and the need to put new technologies into practice. Internal audit members discussed how modernising and more frequent monitoring were required at even the most profitable firms with mature risk frameworks. Organisations are struggling with budgeting for the long term, especially as technology advances rapidly and economic conditions become increasingly uncertain. An optimistic portrayal of risk culture was mentioned, which is built to take on risks in

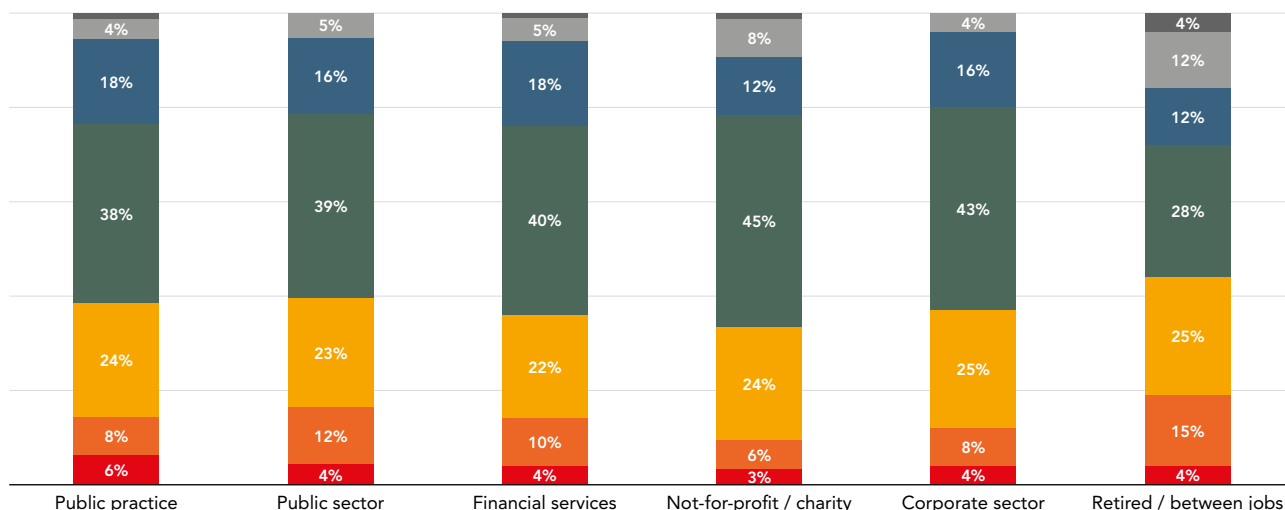
a more informed way and with the most forward-thinking focus possible for gaining a competitive advantage. A CFO in North America argued how risk management has been a defensive approach for decades, but that the materiality of risk today is forcing organisations to embed it into strategy, which many organisations, even with mature risk frameworks, are finding difficult given the accelerating transformations and disruption. We also found that it was only those responsible for risk who have a more positive view of how risk culture affects performance.

One of the best aspects of our survey findings is that they allowed us to compare responses across different teams, and to dig deeper into specific roles, such as chief risk officers and heads of risk. Most organisations placed responsibility for risk with specific risk employees, while a minority placed it in the hands of a non-executive director or other function. HR was seen as an essential part of accountability for risk among non-risk functions. The survey also found that Gen Zs and Gen Ys yearn for more involvement in risk conversations. Lack of risk awareness was highlighted as a risk, with risk governance learning resources becoming a higher priority across all sectors.

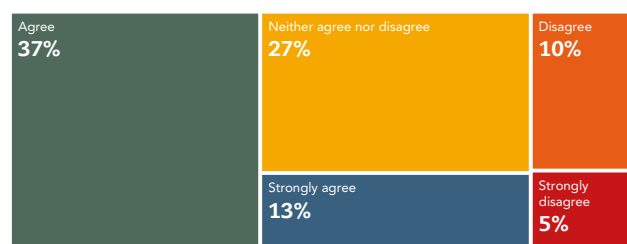
FIGURE 3: The pandemic got more than half of the respondents' organisations to rethink risk culture

■ Strongly disagree ■ Disagree ■ Neither agree nor disagree ■ Agree ■ Strongly agree ■ Don't know or N/A ■ Prefer not to comment

Sector:

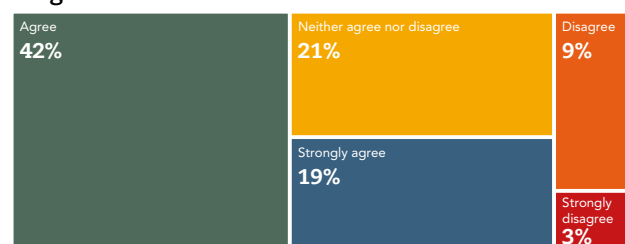


SME:



■ Don't know or N/A: 6% ■ Prefer not to comment: 1%

Large:



■ Don't know or N/A: 4% ■ Prefer not to comment: 0%

(Data rounded to nearest whole number)

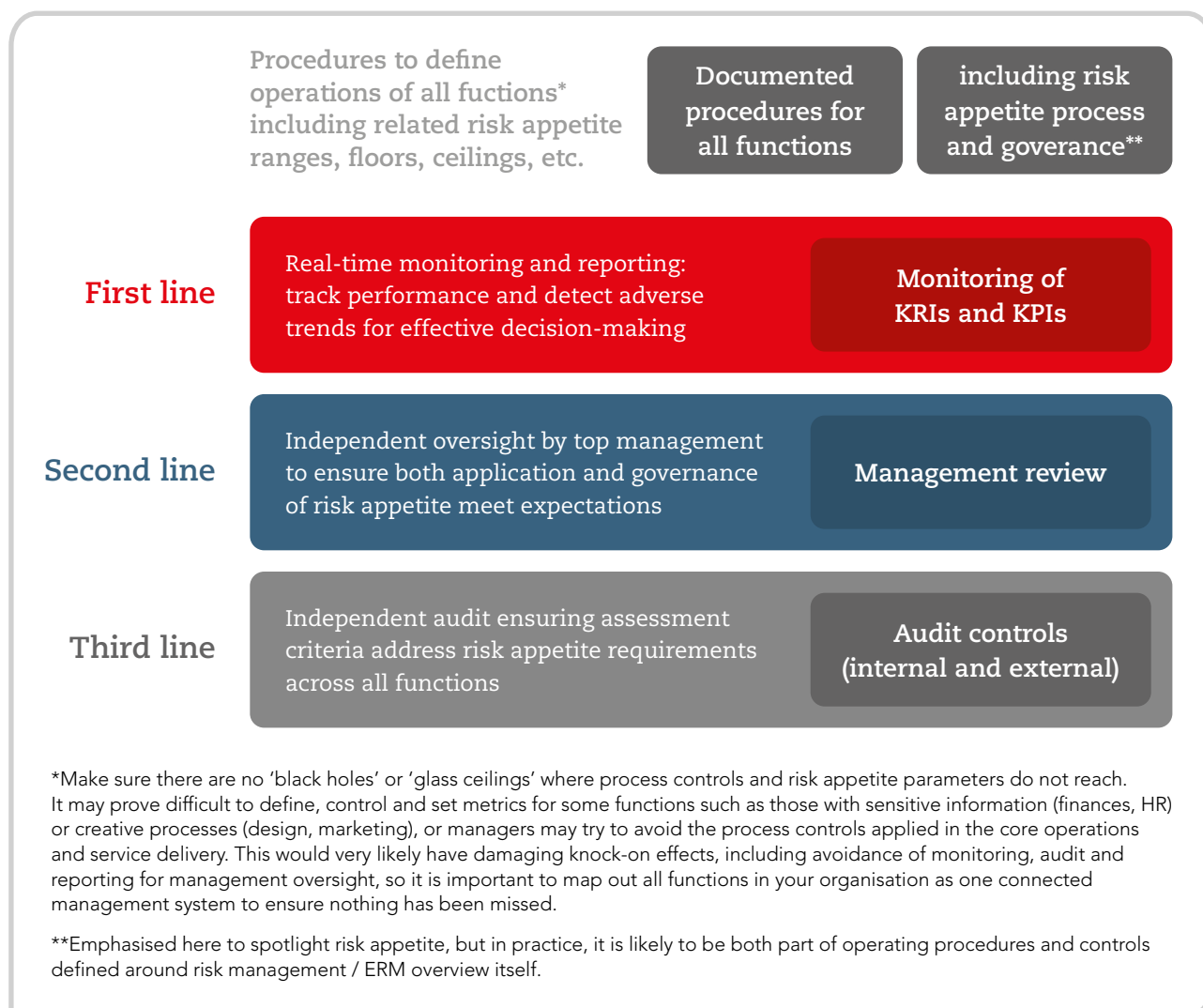
How internal audit evolves with risk management remains a big question

The survey examined the effectiveness of internal auditors and planning processes. Only two-thirds agreed that internal audit could verify internal controls for risk taking, and one-fifth disagreed, didn't know, or preferred not to say. Reactive controls, such as penalties for misconduct,

can be tested and reported better. Additionally, budget allocation should be based on the necessity of controls and an understanding of how they will change the risk. Investment in technology without appropriate governance, for example, carries huge risks.

ONLY TWO-THIRDS AGREED THAT INTERNAL AUDIT COULD VERIFY INTERNAL CONTROLS FOR RISK TAKING, AND ONE-FIFTH DISAGREED, DIDN'T KNOW, OR PREFERRED NOT TO SAY.

FIGURE 4: The 'Three Lines Model' and Risk Appetite



Source: adapted from Airmic-Arthur D. Little-QBE EXPLAINED Guide, Risk Appetite, 2021

A full-page background image showing a person in silhouette walking a tightrope along the edge of a jagged, rocky cliff. The person is balancing with arms outstretched. The background shows a vast, hazy landscape of mountains under a clear sky.

OUR RESEARCH SHOWS HOW THERE IS NO SINGLE RIGHT OR WRONG RISK CULTURE.

Making sense of the overconfidence about understanding risk appetite

Around 80% of the respondents said they had a good understanding of risk appetite in their organisation, with the under-35s and those not explicitly in a role related to risk rating their understanding lowest. The 80% contradicted what respondents revealed in the roundtables and online community pop-up platform.

To put that into context, a good understanding of what risk appetite 'is supposed to be' does not necessarily mean the behaviours and culture inside an organisation reflect the stated appetite for risk taking. Culture and risk appetite too often diverge and work against each other as separate forces.

For some, the overconfidence seems to be a result of opting for seemingly simple solutions where in practice there are none. Risk and financial professionals can rely too much on making simple immediate judgements because being decisive is a behaviour all senior executives like to display. We looked at 'slower thinking' as the more effortful thinking required to understand complex entities. This is what leaders in effective risk cultures will demonstrate – that is, they will admit 'I don't know'.

Risk culture is important for building resilience and seizing opportunities. It is about both diversity and cohesiveness, and there is no single template. Getting that balance right is integral to how an organisation is governed and how well an organisation can achieve its objectives. Our research shows how there is no single right or wrong risk culture. We found that risk culture and how it is framed varies greatly depending on an organisation's industry, regulations, stakeholders, purpose and tolerance for risk. Structures within any single organisation might also constantly change given the speed of risk. Communication about risk appetite should be carefully adjusted, therefore, to ensure alignment remains. The consensus was that risk appetite has become more theoretical than practical, and some may not take enough risk due to fear of something going wrong.

'A risk appetite statement could be something beautiful and flowery, whatever the case may be, but there's no way to measure it since it is changing all the time. I have seen situations where we're not actually taking enough risk, because people want to follow their procedures, and they don't want to grab the ball and be the person who's called out if something goes wrong. On any given day the overall position might not be out of line with the stated appetite, but it may be that someone is just so worried about something going wrong, that they don't want to take the chance.'

Risk manager at a bank in North America

The inside story of debilitating misalignment between culture and organisational purpose

The conflict between ‘What somebody has told us we must prioritise, i.e., the box needing to be ticked’ and ‘what actually needs to be done to ensure we are compliant’ is a significant factor revealed by the survey data, which shows that one-third of respondents say that culture, strategy and purpose are not aligned.

Donald Rumsfeld’s famous quote of ‘Reports that say that something hasn’t happened are always interesting to me’ highlights the short-sightedness of relying on what you can see¹. There are diverging definitions of what ‘risk’ means and how purpose is related to it, and individuals

have different perceptions of where risk appetite fits in. Risk registers and risk reports are not going to solve these problems, so misalignment is not something only risk professionals care about.

Our research found that while risk leaders are working to improve culture and align it with purpose, organisations that focus on compliance and processes are falling down the incompetence slide. A good risk culture is an organisational culture that gives staff the capacity to spot emerging risks and act on them, while a weak risk culture is described as ‘misaligned’, ‘bureaucratic’ and ‘process-driven’.

THE VIEW OF MOST RISK LEADERS IN OUR SURVEY WAS CLEAR-CUT: IF A COMPANY HAS A SET OF ETHICAL VALUES AS A FOUNDATION OF ITS CULTURE AND THESE ARE ALIGNED WITH AN EFFICIENT RISK FRAMEWORK, IN THEORY, COMPLIANCE WITH REGULATIONS WOULD BE A NATURAL CONSEQUENCE.

Risk conversations are happening in a vacuum at the top

Only around 60% of respondents agreed that risks are sufficiently discussed at all levels in their organisation (Figure 5). Our discussions about the results pointed to the fact that this is the opposite of what a good risk culture is supposed to do. We found how different functions in the organisation are speaking different languages about risk.

Overall, two-thirds of respondents agreed that their board and senior management have the same approach. But there were a lot of ‘I’ve heard enough about tone at the top’ comments in our discussions, and many respondents, including those in senior management, said that with the changes in the workplace and virtual board meetings ‘tone from the top’ is a cliché that has lost meaning. A chief risk officer helped us understand another perspective behind the data – exactly how potent is the ‘tone from the top’ and should it also be assessed when we think about expectations of what a risk culture can do?

“We can talk about tone from the top but what about tone from the middle? You can’t just have your senior management, the C-suite and the board talking about how we’ve got a healthy risk culture. How do you convey that and how does it cascade to the rest of the staff?”

Chief risk officer in the UK

Our online community platform also provides insights about whether people are ‘on the same page’ and how incentives foster a risk culture that gives organisations a competitive advantage. The difficult question of how you reward someone for contributing to a ‘good culture’ was highlighted in discussions.

FIGURE 5: Only 60% of risk and financial professionals believe risk is sufficiently discussed



¹ <<https://www.defense.gov/About/Biographies/Biography/Article/602800/>>

How well does risk culture detect misconduct?

Respondents from mainland China were generally more confident in their organisations' risk culture compared to other countries, while the public sector placed 'misconduct, fraud and reputational damage' higher than all other sectors as a risk priority. The corporate sector placed 'misconduct, fraud and reputational damage' significantly lower than others, raising concerns about possible disconnections between the managers or guardians of whistleblowing channels and the risk leaders, especially given the scale of scandals over the past year alone.²

The data on a regional and country level for awareness of wrongdoing and resolution provides interesting food for thought. For example, Africa ranks highest for stating

'I am aware of wrongdoing that has been investigated, but not resolved' and China highest for stating 'I am aware of a wrongdoing that has not been investigated'. We also asked specifically about 'comfort with using a whistleblowing platform' not just whether respondents were aware of a wrongdoing, and if so whether it had been investigated and resolved. The Caribbean scored lowest here.

Respondents pointed out that even a perception of being 'safe' would not be enough to increase comfort levels in whistleblowing platforms. In other words, how do organisations ensure someone can benefit for doing the right thing? The common theme in our analysis is that being safe is not a benefit, it's a basic right.

'SENIOR LEADERS MUST FIND A WAY TO MAKE JUNIOR PEOPLE FEEL "SAFE" WHEN COMMUNICATING WHAT MAY BE PERCEIVED AS "BAD NEWS".'

Whistleblowing does not prevent fraud

Our research reveals several limitations with whistleblowing for the broader question of combating misconduct that transcend regional boundaries. Unfortunately, the outcomes for whistleblowers are often unhappy ones and their experiences more regretful than rewarding. Whistleblowing as a concept is quite reactive and doesn't necessarily stop someone from being tempted to carry out fraud or other misconduct.

Our research delves into the idiosyncratic issues inherent in specific industries rather than general sectorial trends, for instance, in healthcare and aviation, and what drives behaviours in them, given the nature of the business. Of course, airlines are generally successful at making sure what happens in the sky is safe, but these companies have other challenges on the ground that were heightened during the pandemic, for example, data leaks and customer services issues.

'We must somehow emphasise how vital trust is. The three lines of defence – now the three lines – do not work if those on the different lines do not trust one another. Teams underperform when there is a dearth of trust among members. This is true in any industry and it's not something even the regulators truly appreciate. At present, the closest proxy is a focus on psychological safety and whether an organisation promotes, or fails to promote, a "speak-up" culture.'

Special interest group member

'If you say something is wrong and then get knocked down, no one is ever going to feel safe speaking up, and this is the culture we see in medicine, which is why in the US more people die from preventable medical errors because of the fear of malpractice lawsuits. It would be like two jumbo jets blowing out of the sky, but the aviation industry created an open, non-blame culture 30 years ago with an element of amnesty. So, when something goes wrong, they investigate it and share it with everybody. But there is an example of one hospital in the US that completely shifted from being the worst performing hospital in the country to the best. It wins awards because it took away that fear factor by saying "we will reward you to" "we will reward you to inform us for the greater good when things go wrong".'

Special interest group member

What comes next?

We can see how regulators across jurisdictions are cooperating their initiatives more and putting firms under greater scrutiny to identify the root causes of misconduct and risk governance failures. New laws around the world are also leading to additional disclosure requirements affecting both internal and external audit functions. Firing someone for making a mistake or wrongdoing is no longer an answer. Firms will need to understand what drove that employee to do what he or she did in the environment they occupied. In other words, what did the culture have to do with it, and would the wrongdoing have happened in a different setting?

Audit professionals will be increasingly tasked with proving to clients, boards, regulators, employees and the investing public that their firms are aware of culture as a critical risk-governance concern. However, there is a lack of collaboration and understanding of culture as a driver of risk, leading to misalignment in risk perceptions and priorities across organisations. This report calls attention to the questions and challenges that continue to bedevil those in banking and other industries, raising awareness and seeking to promote new thinking that supports improved practices. By viewing proactive risk culture management as a powerful means by which to promote outcomes that reflect company purpose and values, the audit function serves as a creator of value, as well as its guardian.

