

INTELLIGENT RISK

knowledge for the PRMIA community



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📌 influencing your organization's risk culture

by **Mark D. Trembacki**

In a data-driven business and risk environment that increasingly demands predictive measures and sophisticated models, the term “risk culture” can be seen as abstract and difficult to assess and measure. In my view, risk culture is the glue that binds all aspects of risk-taking

and risk management together through shared organizational values, beliefs, and attitudes. Through awareness and deliberate planning, risk culture can be proactively influenced to enhance an organization's risk and business management environments.

Without a strong risk culture, even the best Enterprise Risk Management framework would be vulnerable to weaknesses and failures. In its July 2008 report, the Institute of International Finance stated: “Effective development of a risk culture throughout the firm is perhaps the most fundamental tool for effective risk management.”¹ Risk culture provides an essential element to a successful and sustainable risk management framework with key benefits such as:

Enhancing desired flexibility

Strong risk organizations understand that risk management frameworks are designed to be flexible in order to accommodate the complexities and vagaries of real world scenarios. By serving as an enduring guiding light, risk culture supports better decisions and actions without overly rigid or complex rules.

Bridging framework gaps

Even the best risk framework has gaps in coverage or direction. Risk culture can guide actions when a gap exists. A strong risk culture can also counterbalance exposures resulting from complex organizational structures or operational practices.

Supporting growth, change, and continuous improvement

As new business activities are explored, operating environments evolve, or enhancement opportunities are identified, risk culture supports more proactive, timely, and seamless transitions; it also heightens the effectiveness of change management disciplines.

To achieve these important benefits, risk culture requires assessment and planning. Like many aspects of risk management, basic awareness of your environment and risk drivers is the first step. Based on my experience, I propose six primary ways to proactively shape your risk culture:

1. Discuss it by making risk culture a deliberate part of your leadership agenda.

If you manage what you measure, then apply that practice to talking about qualitative concepts like risk culture. As Christine Lagarde stated, leaders must take “values as seriously as valuation, culture as seriously as capital.”²

2. “Walk the talk” and ensure that the stories your organization tells reinforce culture.

The message delivered by the leadership is important and should be consistently communicated throughout the organization leveraging as many channels as possible. Can you increase clarity and consistency on what is valued? Consider the “urban legends” in your organization and make sure that those powerful stories support the risk culture you desire.

3. Be on the lookout for ways to enhance transparency.

Timely, relevant, and complete information flow is critical for decision makers. Problems and challenges are inevitable: transparency translates into an improved ability to deal with challenges (and seize opportunities) more openly, effectively, and proactively.

4. Examine decision-making, and other approval and governance processes.

Risk considerations should be formally embedded in decision-making processes, including strategy. Strong and effective processes convey the organization's key decision standards. Lastly, strive to achieve a balance of collaboration and consensus with effective challenge to ensure the organization is able to fully identify current or emerging risks.

5. Think about incentives and consequences, both visible and informal.

Financial and other incentives need to support the desired risk culture. Outcomes achieved through inappropriate or countercultural behaviors should not be rewarded.

6. Foster a safe environment for employees to bring forward risks or issues.

Employees need to know they are supported if they identify an unmitigated risk or emerging threat.

¹ / “Final Report of the IIF Committee on Market Best Practices: Principles of Conduct and Best Practice Recommendations,” Institute of International Finance, July 2008, 33.

² / Christine Lagarde, “Economic Inclusion and Financial Integrity,” Address to the Conference on Inclusive Capitalism, London, England, May 27, 2014.

The organization's leadership can first consider these topics; however, it also is beneficial to cast the net more broadly to obtain a deeper composite view to see what employees really think. This fact-finding objective can be accomplished through surveys, focus group discussions, virtual water coolers, or other methods with employees and potentially external stakeholders with a view into the organization. Crafting a set of survey questions appropriate for your organization is not only a great way to collect information, but it serves a reinforcing role in and of itself as the outreach shapes your risk culture by showing leadership is paying attention to it.

A strong risk culture provides broad benefits to any organization, and its shape and evolution should not be left to chance. Risk culture is a powerful influence within your organization, guiding actions and behaviors. Through thoughtful planning, risk culture can be proactively molded to support the strategic goals of your organization.

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