Influencing risk culture

The concept of business risk has evolved to encompass all day-to-day issues, driven by the realisation that often success or failure is dependent on the behaviour of an organisation's people – either individually or in groups.

In an increasingly complex corporate world, managing risks related to an organisation's 'human capital' is critical. The management of these risks is often perceived as challenging because it's thought that people-related risks can't be quantified. However, it is precisely the intangibles and uncertainties inherent in this 'human capital' asset that are critical to today's evolving corporate risk and safety management strategies.

A good, balanced risk culture helps organisations identify and take advantage of the right opportunities, to gain competitive advantage and reduce the total cost of risk.

Setting the right risk culture

Taking an overly cautious approach to behavioural risk can lead an organisation to achieve below-potential growth, while a risk culture that is high on the risk spectrum (without suitable frameworks in place) can lead to extreme losses. Additionally, pressure from shareholders to achieve quarterly performance results forces longer-term risk management to take a back seat to short-term targets.

Establishing a consistent and enterprise-wide risk management framework, that is supported by a strong risk culture, supports business resilience while minimising risks and potential losses. This forward-looking approach, founded on a clear understanding of the organisation's risk culture and its influences, gives leaders the power to shape strategy to match desired outcomes.

What is risk culture?

Risk culture is the sum of the organisation's "shared values, beliefs, knowledge, attitudes and understanding about risk" (Institute of Risk Management). It is built, shaped and reinforced by individuals, groups and leaders within organisations.

The need for a strong risk culture

For example, rogue traders have caused millions of pounds of losses for investment banks and nearly all industrial accidents can be traced back to flaws in risk behaviour.

The role of leaders

The role of boards and chief risk officers, as well as other risk specialists, is to clearly articulate a balanced and business-orientated view of risk. It is crucial that this is used as the basis for educating and advising the rest of the organisation.

Risk and safety cultures develop over time and leaders play a crucial role in helping culture to mature. Business leaders need the knowledge and skills to take an organisation towards an incident-free environment.

Aligning risk appetite to risk culture

Understanding risk appetite informs effective assessment of current, baseline risk culture. The subsequent assessment findings help identify areas to address and suitable interventions that, combined with ongoing monitoring, enables organisations to effectively manage risk culture.
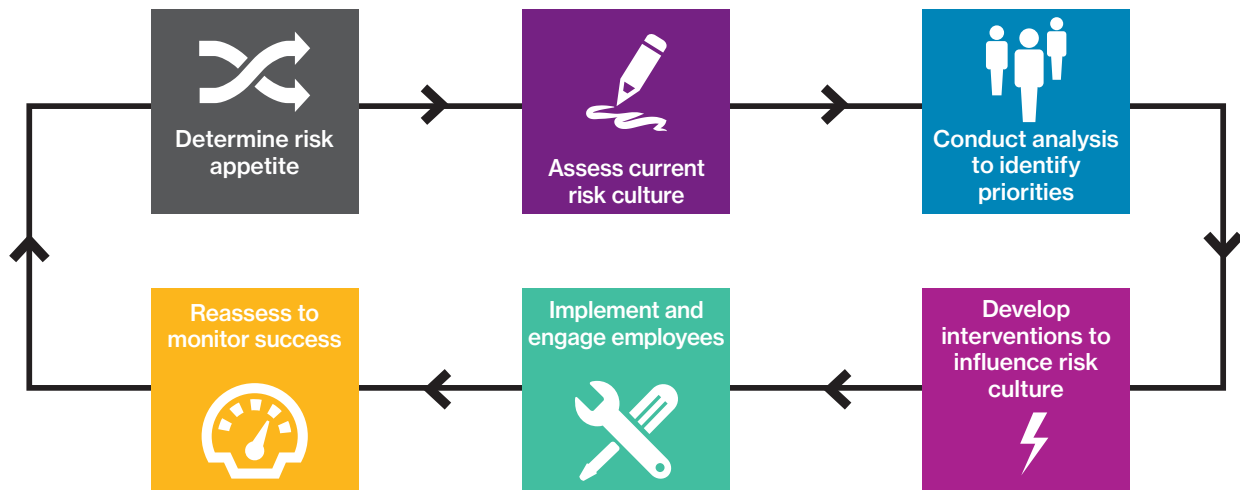
A focus on risk culture

To influence and improve risk culture, an organisation must understand both a top-down and bottom-up perspective. This understanding highlights risky behaviours which, if eliminated, will lead to a reduction in for example, incidents, accidents, fines and claims; reducing the total cost of risk.

An organisation can look to improve risk culture holistically and/or by focusing on specific businesses or functions via an operationally focused approach.

Corporate risk culture – the board's duty

A well-managed risk culture supports business objectives and reduces the total cost of risk. Responsibility for risk culture is also one of the board's duties.

The Financial Reporting Council's (FRC) Corporate Governance Code states responsibilities and offers guidance for boards of listed companies and standards for auditors. It directs that each board member must be 'risk aware' and that the board should establish a company's culture, values and ethics.

The Code demands that risk management and internal controls are incorporated within day-to-day management and governance processes, and not treated as a separate compliance exercise. Each company must report on how they have applied the Code.

The Code also specifies that risk considerations are embedded into reward systems, asking the board to consider how its human resource and reward policies support business objectives and risk management.

A holistic approach to corporate risk culture, starting at board level, will ensure all activities from strategy to communications are correctly aligned to influence employee attitudes and behaviours. To influence and improve an organisation's risk culture, corrective strategies need to be embedded throughout.

Operational risk culture – target specific functions

Risk culture can be applied to units or operations within an organisation; vehicle or fleet risk management is a good example. Whether fleet is the primary business or not, addressing risk culture in relation to drivers can influence areas such as recruitment, retention and training, while reducing claims and the total cost of risk.

By undertaking a screening assessment and a survey of drivers, fleet operators can identify links between drivers' attitudes, beliefs and behavioural tendencies, and the frequency and severity of incidents. There is a strong correlation between for example, engagement in the work place and the frequency and severity of incidents across industries.

The combination of a driver survey, identifying issues from the perspective of drivers that management may not otherwise be aware of, and individual driver assessments, enables organisations to target elements of the driver experience that are most likely to have a positive impact on the number of incidents and subsequently claims.

The financial benefits for an organisation are clear – a robust mitigation approach and fewer claims will have an impact on insurance premiums and retained costs. In addition, this approach to managing risk will significantly reduce the threat to brand and reputation by the potential for fewer incidents and more impactful communication.

A targeted risk culture approach can be applied to any part of an organisation.

Measuring risk culture – the importance of quantification

Measuring risk culture is important for internal assessment and risk culture management, and will help companies meet the requirements of the Corporate Governance Code. Much of an organisation's risk culture lies 'beneath the surface'. Important cultural characteristics may not be immediately apparent but they can be identified, measured and understood using two key assessments.

Individual risk profile

Applying a well proven psychometric assessment to employee groups that manage risk or represent material risk exposure can help organisations understand their combined risk profile. For example, assessing leadership can help organisations measure their senior management group's propensity for unduly risky or risk-averse behaviour, and whether the tone set from the top matches the desired risk profile.

Employee risk survey

A risk survey uncovers the collective impact of employee views and behaviours. A survey enables measurement of key aspects of risk culture and an assessment of findings, in the context of external norms, to identify the drivers of employee risk attitudes, highlight potential risk 'hotspots' and answer core questions such as:

- How safe do employees feel it is to speak up?
- How do employees view the example set by leaders?
- Do employees feel a sense of personal responsibility for managing risks in the business and do they feel it is necessary to adhere to risk controls?
- Do performance management or bonus metrics make employees more prone to risky behaviour?

Analysis and reporting tools in these two areas not only provide key insights for senior management but are also suited to engaging and involving line managers in the local risk culture of their own areas of control.

Setting priorities

The outcomes of both assessments can help risk and HR functions identify key interventions that will improve risk culture. In combination with HR data, claims statistics and risk exposure data (for example, telematics data in the case of drivers), the outcomes of the two assessments become more powerful, helping shape targeted interventions that lead to improved risk management and stronger risk cultures. Armed with a better understanding of current risk culture and how it links to key risk factors, leaders and managers can utilise a range of tools to shape their organisation's risk culture going forward.

Tools to influence risk culture

Integrated risk management is achieved through a structured and coordinated approach that identifies, assesses and manages relevant business, asset and people risks.

Willis Towers Watson works with organisations to transform risk culture and ensure a successful implementation of new integrated risk frameworks.

A unique perspective highlights the critical intersections between talent, assets and ideas, the dynamic formula that drives business performance, through:

HR interventions

Aligning HR and risk policies to design and implement more effective processes. Typical interventions include review, redesign and implementation of compensation and incentives, manager selection and development, and performance management.

Risk management

Independent review of policies, procedures and documentation to influence an organisation's risk culture.

Assessment of existing risk management frameworks enable an organisation to understand its strengths and identify where processes require enhancements, measured against market best practice.

Organisational effectiveness – governance, compliance and controls

Review of an organisation's structures and processes to ensure optimal outcomes, such as effective decision-making, regulatory reporting and role accountability, against market best practice. An employee perspective of these measures often identifies unforeseen incentives not to follow procedure, incentivising risky behaviour.

To find out more please speak with your usual Willis Towers Watson contact. Alternatively, you can contact Alasdair.Wood@willistowerswatson.com or visit www.willistowerswatson.com.

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