# Managing change and building a positive risk culture

**By Philip Atkinson**

Whatever the sector or organisation in which you are employed, you will note that 'risk' and 'risk management' is now a big issue for implementation. Size is a factor. We have an economy with big organisations in the private and public sector that really cannot afford to fail. It is about time we started taking action against strategic and operational risks.

Many of us are interested to see what happens to the failed financial institutions and we are equally concerned about the very large institutions – central government, the NHS, the police force and emergency services, large private sector businesses and a host of SMEs – and whether they can meet the challenge and build a strong risk culture.

## Organisational cultural change

For too long we have talked about the need to develop the right culture for customer focus for service delivery and quality improvement. Now we have a demand to replace the 'risk taking culture' with one which is 'measured'. In many organisations, their relative success has led to false competence, a belief in their superiority which has led to disregarding a measured approach to risk with the 'unbalanced scorecard' where profit alone is King, and the dominant factor is revenue generation or the growth of the business through acquisitions and mergers, as happened in RBS.

## The issue or risk

Everything we do in business involves some degree of risk. It requires us to develop a balanced 'risk appetite'. Whether we expand our operations, invite new partners into our supply chain, or develop joint ventures we have to confront the management of risk. Unfortunately, this has tended to be an after-thought, rather than a strong factor in the decision making process.

"A risk culture is reflected in the attitudes, behavioural and managerial norms within an organisation that determine the way in which they identify, assess and act on challenges and risks confronted."

## The risk appetite

Whenever we personally ask for a loan, negotiate a house purchase or apply for finance on a car, we know with certainty that someone somewhere will use a scorecard to underwrite or score the risk of the loan. That's the underwriters 'risk appetite' and as the consumer you will know whether you are a good risk or not in whether you get your loan granted. Unfortunately, this practise does not spread within many organisations in both the private and the

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public sector.

The 'risk appetite' should pervade every level of business, every function and location and should be central to decision making, allocating budgets and resources, and investing in new projects. The 'risk appetite' is generated by asking the question "How much risk is acceptable in pursuing corporate objectives and how do we ensure that our organisation is operating within bounds that represent the organization's appetite for specific kinds of risk?" This requires a fair amount of analysis founded in Enterprise Risk Management (ERM) strategies.

What is important is that risk management permeates strategic planning within the organisation and be reflected in its culture, its leadership and decision-making and reflected in its reward and performance management process.

## Risk management

Undertaking and understanding your 'risk management' requires a thorough assessment of your current and future vulnerabilities, and developing a SWOT analysis, identifying the 'weaknesses and 'threats' which put you most at risk and then determining corrective and preventative actions to mitigate those risks – which in turn will become your risk register.

Inherent in guiding this process is your 'risk appetite', or what you agree is acceptable risk. A risk appetite which is too low will mean that the organisation foregoes profitable opportunities because they are too 'risk averse' whereas a 'risk appetite' which many consider 'cavalier' may put the organisation at serious reputational risk and threaten even its continuance in its present form.

## Creating your risk appetite (diagram)

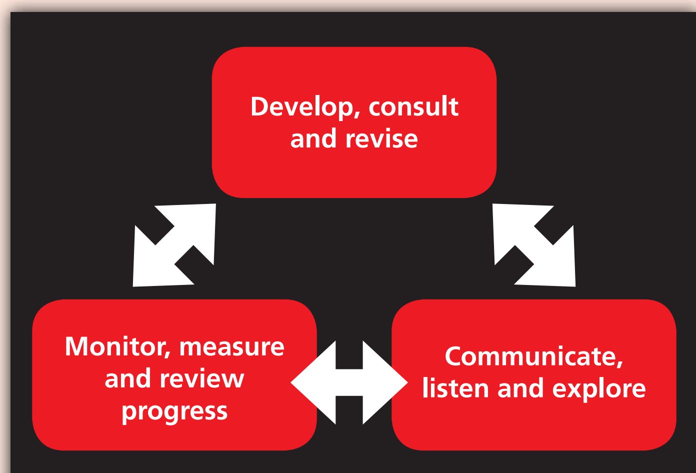
This is where we ask whether the 'risk appetite' is really something of which the Board, the CEO, CFO, CRO and managerial grades are aware. This is often defined as Leadership – the 'Tone at the Top'. You have to ask has this been defined, debated, discussed and agreed and by whom? Further, has it been communicated to all managers, decision makers and project leaders and implications expounded, and if so, how is this being monitored, measured and reported? In addition, how is it being reviewed and updated?

This is not something that you can get off the shelf. There is no such thing as a universal 'risk appetite statement' that can apply to all organisations, nor is there a 'one off, all encompassing right risk appetite'. The Board, CEO and the management executive must make choices in setting risk appetite, understanding the trade-offs involved in defining higher or lower risk appetites and this is contingent on their organisation, its history and its culture.

## How important is risk culture and what are its key determinants?

Corporate or organisational culture is one of the subjects in change management that is most commented upon, yet least understood. People talk about changing the culture in banking, the NHS, police force and public services but very few actually know how this can be brought about.

Even the guru of corporate culture, Edgar Schein, does not specify beyond a simple model how this can be achieved. What must be


*Creating your risk appetite*

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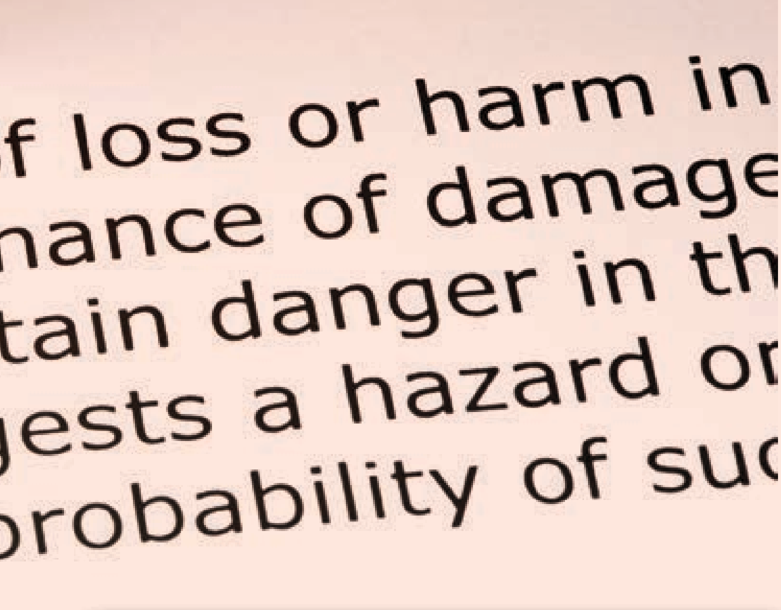




understood is that corporate or organisational culture is the flux, the glue that holds the organisation together.

Culture change is too important a subject not to be taken seriously by change management practitioners. Culture is founded on beliefs of the founders and how these have been shaped over the years by other key players and the crises and situations that the organisation has had to endure.

The organisational culture is represented as an iceberg. The majority of the culture is below the water line, opaque and difficult to define with precision. It is only the artefacts and symbols of the organisation that can be precisely defined. This is a useful analogy to explore that much of an organisation's culture is hidden from view and requires exploration through specific diagnostics.

Using the iceberg analogy the personal beliefs of founders and successors have formed into 'core values' which demonstrate what is important and is usually reflected in set attitudes, and ultimately behaviours which become the norms of standard ways of working.

As an organisation moves forward it documents many of the stated and unstated values and behaviours which become enshrined in policies which find their way, after interpretation by managers who live in the culture, into systems and processes which should reflect the intent, values, beliefs, attitudes and behaviours of these steering the organisation.

Of course, in many large-scale central or local government organisations, the influence of how things have been accomplished historically in the military, the church and the law are interwoven into the culture. The pure model of Bureaucracy of Max Weber has been the driving force behind the culture of many public sector organisations, founded on his logic of how best to manage the Rules of Bureaucracy.

## The culture of risk: Don't assume decision making is logical

Risk is inherent in the management of any organisation and is imbedded in the 'approved decision making process' which is widely accepted as the norm for deciding how and who allocates resources, and when. Note, the process of 'decision making' is central to the risk culture. Decision-making and the rules that drive it may be unstated, vague, assumed, difficult to define and replicate.

There is a temptation to say that 'decision making' is a logical process and taken for granted, but it is just as much a reflection of chance, guesswork or preferences of key players that it is difficult to define as a stated and rational process. The mysteries of the specific decision-making processes will tell how a business is run and its attitude towards risk, as well as its 'risk appetite'.

Decision making: Is this an espoused, and stated process, or driven by personal power or whim?

How an organisation makes decisions and the impact this has on the business depends on whether the process is stated as 'espoused' or 'real'. We can say we make decisions using a balanced scorecard approach, but in reality, it may be at the whim of a senior manager who adopts a strong and assertive style purely because his or her past record has been exemplary though somewhat disregarding of risk. Here could lay disaster when circumstances change and decision-making remains constant. These behaviours are influenced by the founders, their successors and business leaders values that are reflected in attitudes and behaviours of the people they manage. This is further reinforced, consciously or unconsciously, by the reward or performance management system – whether this is stated or unstated.

## Risk culture by design or default

• Central to the decision-making system and the process and criteria used for rewarding desired behaviour we set in motion a culture where the rules and default behaviours are known, practised and rewarded but not however, articulated, shared, formalised or agreed.

Here a culture starts evolving which is based on 'assumed' behaviours, which may be in contradiction of a strong risk culture which is both resilient and robust. This is where problems arise because:

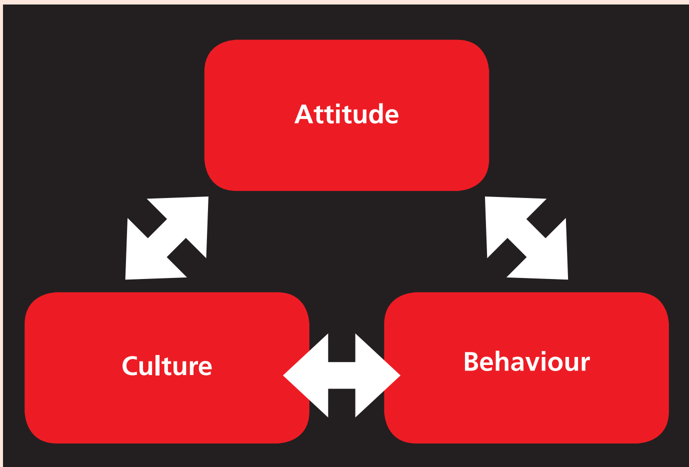
• Core behaviours (which appear in delivering results) which may be counter to building a robust risk culture have not been articulated or agreed as driving behaviours are endorsed as 'business as usual';
• If the end results are substantial in terms of cost reduction, improved business activity, revenue generation or profitability – then these behaviours can become the norm;
• Core behaviours become the norm in driving and endorsing decision making for all future activities and this becomes stronger when there is a causal link between displaying behaviours and reward;
• When this takes hold as the dominant desired behaviour, personal subjective judgement of key players has more weight than objective, rational consultation in core decisions and this over-rides any 'risk tolerance';
• Because undesirable core behaviours are rewarded, there is less incentive to challenge the status quo;
• Core behaviours may be counter to the 'risk culture' have been welcomed and endorsed by senior staff.

The writing is on the wall here because 'subjective' judgements over-ride any stated or unstated or acknowledged 'risk appetite' and the organisation puts itself in a position where a serious incident, emergency or accident is waiting to happen. Readers will be aware of too many instances in the press where organisations allowed this culture to evolve, simply because they believed their performance was repeatable and their attitude was one of superiority and arrogance.

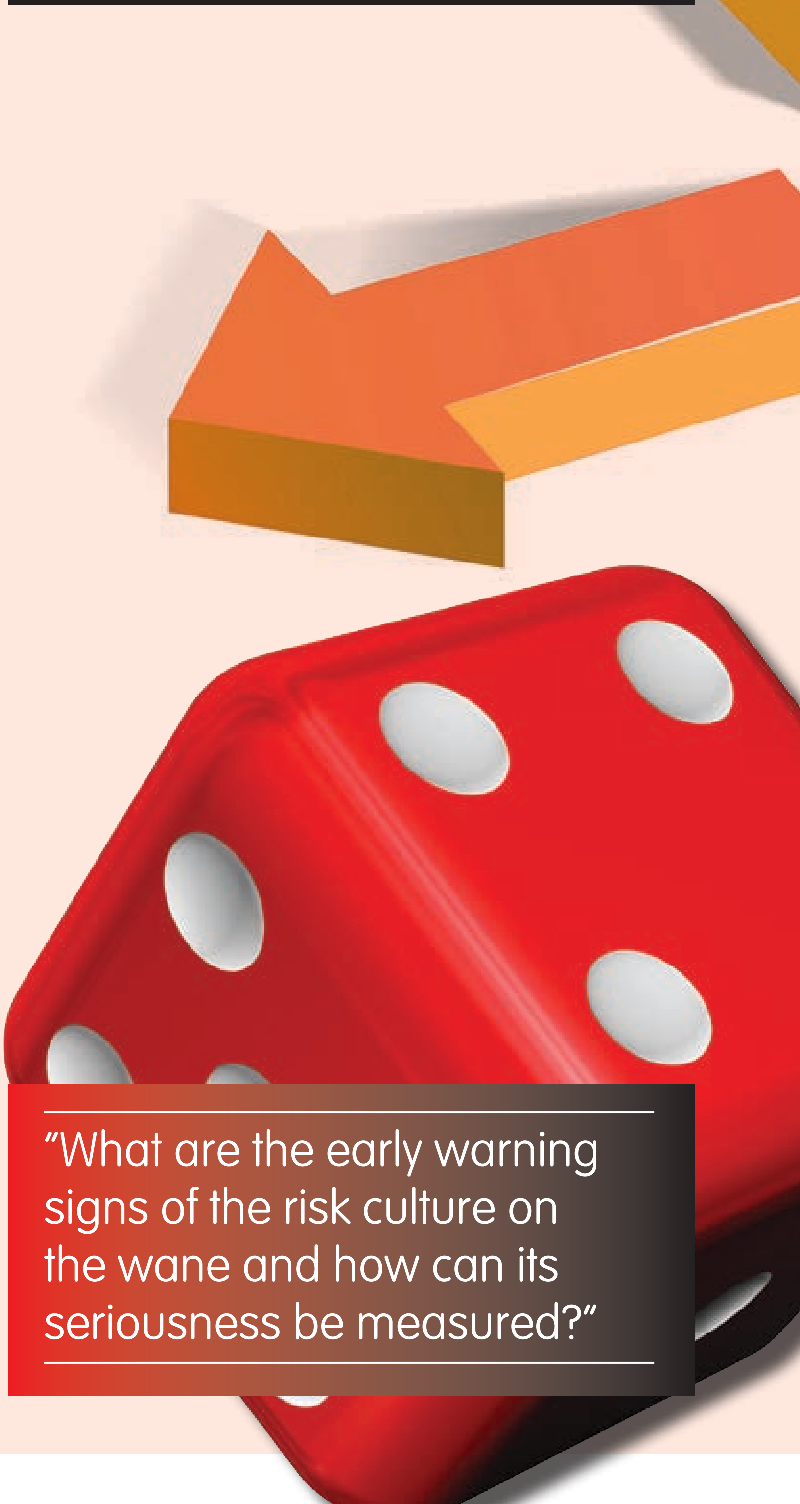
## Key learning, warning signs and diagnostics

Key issues need to be addressed here – the first is: What are the early warning signs of the risk culture on the wane and how can its seriousness be measured? Warning signs include:

• Over-confident business functions or individuals who have achieved outstanding performance which was largely unpredictable and unanticipated;
• Preference and over-reward for some business units who appear to enjoy unexpected superior results and performance;
• Evidence of disregarding the risk appetite with new ventures and early product or service release;
• Laxness in reporting risks and little adherence to the risk register;
• Managers evading reporting on early success with product penetration and development;




*Risk culture*



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• Vagueness in maintaining and setting standards being acknowledged and endorsed;
• Business failure not being questioned.

### Risk culture diagnostics

These have to be specifically designed to meet the special situation and context of the business and tailored to address the core factors illustrated in the risk culture iceberg referred to earlier. It does not matter if the organisation is a financial institution, central government department of NHS Trust or Board the process is one of establishing the 'culture as is now' and comparing this to the 'to be or future desired culture'. Further information can be obtained here on various case studies.

What can you do to promote a positive and resilient 'risk culture' within any organisation?

Too many organisations fail to see the warning signs and have to expend a huge degree of energy to avoid disaster, and set in processes to prevent it happening in the future.

### Governance structure and risk reporting relationships

• Do you have a committed leadership to the 'risk culture' and have you set the tone at the top? Have you clearly defined the role of the Board and the specific role of the CEO, the CFO and the chief risk officer, internal audit and business unit heads?
• Have you defined your 'risk tolerance' to the organisation and to key stakeholders and your customers?
• To what extent have you defined strategic imperatives and plans into risk management objectives?
• Do you ensure that you have built up a matrix management process to ensure that all regions, geographies and business units fully understand the risk appetite and how far they are expected to manage their independent business planning to align with the process?
• Have you developed a performance management and reward process that incentivises the desired behaviours reflected in the Risk Culture? Ensure that those who deviate from stated behaviours and norms have a limited future unless they change their behaviour
• Develop a continuous process of positive and constructive challenge or assumptions, behaviours. Remove whistle blowing and replace it with a positive learning climate where innovation is incentivised and rewarded
• Completely remove any climate of fear or aggressive managerial behaviour and bullying, replacing it with a positive, no blame culture

### Summary

As uncertainty in the market place increases almost at an exponential rate, organisations witness a strong disregard for the risk appetite, which is witnessed in management behaviour where excessive over confidence, and perceived superiority leads to a sense on invulnerability. This becomes serious when 'undesired behaviour' suddenly seems to be rewarded in spite of risking the whole venture.

It is time to stop ignoring the behaviourial and cultural problems of the negative 'risk culture' and stop sweeping 'bad practices' under the carpet. The only way to build a strong and resilient risk culture is by listening, questioning assumptions and behaviours, replacing indifference and passivity with action, engage in shaping the organisation's future and replace cavalier attitudes by setting the tone at the top through challenge and leadership.

About the author
Philip Atkinson specialises in strategic cultural and behavioural change. For the last 20 years he has been engaged as a consultant supporting companies in strategic development, leadership, organisational design, post-acquisition integration, lean six-sigma, quality management and culture change. He has partnered with a variety of blue-chip companies in industries ranging from pharmaceutical to genetics, and the automotive industry to finance and banking. He regularly presents at conferences and workshop sessions and has written seven books on change management. His new book Organizational Culture: Lessons in Best Practise is due to be published in August 2013.