Enterprise Risk Culture: From Elusive Phenomenon to Pragmatic Solutions

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Abstract
When searching for news items relating to 'Risk Culture', it is easy to find articles reporting on inappropriate risk cultures. Chief Executives are blamed for creating them and are subsequently forced from their posts. Rouge traders are deemed to have exploited them; making illicit trades and losing billions of pounds in the process and global banks are accused of tolerating them, damaging their reputations and subjecting them to pressure from regulators to demonstrate real change (Aldrick, 2012, Harris, 2012, Slater, 2012).

Clearly, the culture created by a leader is seen as a fundamental influence on the actions and behaviours of organisational members. Additionally, these behaviours have the ability to impact beyond the boundaries of the organisation itself, leaving companies, and their leaders, exposed to unforeseen risks. Therefore effective risk management now demands that we understand the role of culture in relation to an individual's behaviour so that we have some scope to exert the appropriate management of it.

Culture is identified by anthropologists as a 'complex whole'(Irvine, 1994) made up from patterns of behaviour, habits of mind, customs, rituals, symbols and traditions. To build understanding of the 'complex whole' of risk culture a Systems Thinking approach is taken. The research examines organisation culture theory and ERM practice to develop a pragmatic method to profile an organisation's unique Risk Culture and combines and balances the postmodernist principles of contextualisation and non-judgmentalism with the modernist principles of categorization and predictability. These concepts are not seen as mutually exclusive, but as beneficial perspectives to be employed at appropriate moments in the development process of the profiling.

The efficacy of the approach is demonstrated through two case studies. The first case study illustrates how within one business unit, risks within each department were being dealt with effectively yet those that were likely to occur across departments were being overlooked. This enabled new systems to be designed to more effectively take these risks into account.

The second case study illustrates how, within another organisation, it was discovered that not all departments were following the intended spirit of risk management policies set out by the company. This left some areas of operation more exposed than others and generated a number of changes to the company's risk management systems.

Keywords: Risk Culture, sub-culture, managing culture, case studies

Introduction
In February this year, the Financial Stability Board published their review of national and firm risk governance stating that, although standards were improving, more work remains to be done. The review emphasised how, '*national authorities need to better assess the effectiveness of a firm's risk governance framework, and more specifically its risk culture*'[i].

Yet, in May of this year the Chartered Insurance Institute in the UK reported that despite the increasing use of the term 'risk culture' in the wake of the

GFC[ii] and the LIBOR scandal, financial institutions and their regulators remain unsure of what risk culture is and how it can be managed.

The sense of conviction, that there is a sub-element of an organisation's culture that significantly impacts upon how risk is dealt with in an enterprise, is shared across industries – as is the uncertainty of what they are exactly or how they should be managed.

This article sets out to clarify the concept of risk culture and provide tangible approaches to measure and manage it. Two case studies are discussed to contrast the benefits obtained from engaging with the concept of risk culture.

Unpacking the terminology

What's in a word? Well, with the word 'culture', quite a lot. Language is at the heart of any culture and is a feature used to distinguish one culture from another. The meaning (and sometimes multiple meanings) each culture ascribes to a particular word can be learnt but the contexts in which its use is judged appropriate, or more importantly inappropriate, takes longer to learn than any direct translation. For our purpose here, which is to arrive at a shared understanding of risk culture, it helps (we would venture to say it is 'necessary') to appreciate the conceptual heritage of the term and the subsequent meanings that have, over time, been tagged to it. The aim is to determine the meaning that will be most useful.

Originating as a farming term (Paul, 1990), (agri)-culture referred to the human activities that generated crops (from the Greek term for tilling the land), but the term also covered activities such as how farmers might take account of position and climate or apply their accumulated experience to ensure the most productive crop as possible. It is also worth noting at this point that the term 'culture' is extended to different classes of outputs: agriculture; horticulture; viticulture; apiculture etc. In such tangible domains it is easy to feel comfortable with the meaning of these terms. However, adoption of the term by other domains has led to a broadening of meaning – each new domain taking on the term has added a nuance that has increased the vagueness and uncertainty we experience with phrases such as 'organisational culture' and 'risk culture'.

Social commentators and philosophers had been applying the term figuratively since the Age of Enlightenment, giving rise to the concept that the human mind and body could be 'cultivated', expanding the range and quality of its outputs and subsequently fuelling the progress of humankind. However, when anthropologists adopted the term in the 19th century to describe the social manifestations of human existence in peoples other than their own[iii], the term culture took on debatable, subjective and multiple meanings[iv].

For anthropologists, developing a body of knowledge on human culture included: studying patterns of behaviour and relationships; development of knowledge and technology; methods of sustenance etc. It also included a study of the beliefs, art, morals, law, and customs that supported and sustained these activities within the context of a local physical terrain and climate. A vast body of learning that has led to the term becoming somewhat bloated and soggy of meaning.

Despite this, it is from anthropology that management theorists adopted the term as early as the 1950's with the concept of organisational culture gaining significant ground in the 1980's after the publication of a number of seminal works by management consultants and academics such as Handy (1976), Hofstede (1980), Peters and Waterman (1982), and Deal and Kennedy (1982).

An emergent property

One of the reasons that culture in the organisational domain is intangible and not easily described is because it *emerges* from the dynamic interactions of an organised system of sub-elements[v] and it changes over time (Robertson and Allan, 2005). This means that it cannot be understood from a cause and effect analysis. This basic idea underpins the majority of organisational culture models. Each model seeks to find the right balance in the play-off between capturing the rich complexity of the dynamic interactions of organisational elements whilst at the same time delivering a meaningful *and* practical description of an organisation's emergent culture.

However, many remain too generic to provide any useful direction whilst others require managers to develop a set of anthropological skills in order to make use of them. Additionally, organisations today are becoming even more dynamic, complex and fragmented and whilst there may be a level at which an organisation-wide culture exists, experienced managers understand that pockets of sub-cultures occur across an organisation too.

Risk Culture as a new form of organisational culture

So, what is the merit of introducing a sub-culture such as risk? At this point it is beneficial to take a sideways glance at the engineering sector and reflect on how the concept of a 'safety culture' arose.

The idea entered the public domain following the Chernobyl Disaster in 1986. Human errors in management practice had led to a flawed reactor design and violations in operating procedure, both of which enabled the disaster to occur and official reports into the incident attributed them to a 'poor safety culture'[vi]. Examination of additional disasters such as the Piper Alpha oil rig fire, the Herald of Free Enterprise ferry capsize and the NASA Challenger explosion further built on this sense that a specific element of an organisation's culture – a sub-culture – needed to be identified, given attention and developed in order to protect an organisation, its employees and its wider set of stakeholders from potential harm.

Similarly, the concept of Risk Culture in the financial sector has gained significant ground since 2008 in the light of several disasters. There were rogue trader catastrophes dating back to the Barings Bank collapse in 1995, product mis-selling scandals, poorly designed sub-prime products, banks' compensation systems that favoured short-term gains and the revelations of the LIBOR manipulations which all contributed to the sense that risk in the financial sector was being inappropriately managed. Although many of these disasters were playing out at the level of the system it was the human element of consistently poor, and often unethical, decision making behind them that led commentators reaching for the concepts of culture.

Defining the terms of reference

So this is how we have arrived today at a point where the term risk culture is used without full and wide comprehension of its meaning. Yet without this level of comprehension how can we begin to know how to deal with it? The lack of pragmatic approaches leaves the concept in danger of being put aside resulting in a loss of the benefits to be gained from working with a culture.

Clearly, deriving a working definition is essential for any meaningful progress. Based on the above analysis of the concepts of culture and its journey into our organisational vocabulary, the working definition used in this article is as follows:

> ***An organisation's risk culture is formed by the 'behavioural rules' created by both an organisation's leadership and its staff in the process of achieving its goals within a specific set of environmental conditions.***
>
> ***These 'behavioural rules' can be observed in the actions taken, the actions not taken and interactions between organisational members, in relation to managing risks.***

This definition places relevance equally on the actions that aren't undertaken as well as on the interactions between group members, also highlighting the impact of the external environment.

Selecting a Risk Culture Model

At about the same time that management theorists were adopting the ideas of culture from anthropologists; anthropologists were extending their cultural theories into the domain of risk (in a general social context). Douglas and Wildavsky (1982) began to pioneer a Cultural Theory of Risk - the concept that our understanding of risk is socially constructed. Cultural theory finds that our perception of risk is a function of how strongly we feel bonded to a particular group and the degree of hierarchy that exists within that group. The model places dimensions of community belonging (group) and community regulation (grid) in a low to high, two-axis system creating a typology of four social environments (cultural contexts). The theory has been used to explain that people have one of four cultural worldviews through which they perceive risk and although popular (Ingram and Underwood, 2010) it has often been misrepresented and some argue that it has received little empirical support (Sjöberg, 2002, Oltedal et al., 2004) with accusations of low explanatory and predictive power. However, the Cultural Theory of Risk does provide some useful general insights on the dynamics of culture, highlighting the significance of group relations and group rules.

Similarly to cultural theory, the majority of models of organisational culture available compare just two dimensions such as task vs. relationship (Handy, 1999) or combine several dimensions into two more complex axes e.g.

flexibility & discretion/control & stability vs. internal focus and integration/external focus and differentiation (Cameron and Quinn, 2011).

Some have navigated around the issue of which cultural model is best suited to their needs by looking to compile a profile of an organisation's risk culture from the individual risk personalities of its staff. However, when using this approach it needs to be borne in mind that our personality is just one influence on our behaviour in the multi-dimensional organisational arena (Maund, 1999, Mullins, 2007, Buchanan and Huczynski, 2010).

Selecting an approach to assessing and managing risk culture

In the last decade organisations have struggled to find a pragmatic approach to managing culture that is both cost effective and time efficient while still providing valid and meaningful insights that can be translated into effective change programmes. For larger organisations with a budget to support risk culture activities external consultancies can be employed to conduct extensive anthropologically designed projects, undertaken over an extended period and involving numerous staff across the organisation and at all levels. For those organisations without such a budget internal resources are used to build a proprietary approach. Both have advantages and disadvantages in terms of time / financial costs and validity / reliability benefits.

An alternative approach has been developed encompassing the many influencing layers[vii] of factors in the multi-dimensional setting of an organisation (psychological, social and cultural) using the advantages of online technology.

Several dimensions have been conceptually mapped from numerous overlapping models of organisational culture and include those most commonly agreed upon as well as dimensions derived from grounded theory increasing the validity of the framework. The approach also embeds the various risk management activities of identification, analysis, mitigation and review and, as a result, provides insights into the current state of an organisation's risk culture.

These dimensions can be broadly described as:

- Process versus goal orientation
- Relationships versus task orientation
- Organisation versus profession orientation
- Open versus closed orientation
- Loose versus tight control
- Policy versus customer governance

A web-based survey, designed using the above cultural dimensions and risk management activities, is completed by selected staff and the responses are analysed. Demographic questions enable granular analysis in order to pinpoint the issues more specifically. All data is purposely kept anonymous for confidentiality purposes.

The results enable a view of the organisation's overall risk culture and the contrast between different departments' risk cultures (and therefore the lack of alignment) as well as the consistency in the risk management approaches of identification, analysis, mitigation and review.

Case Studies[viiiix]

The two real life case studies put forward in this paper illustrate this alternative approach. The first case study illustrates the insights obtained from the six cultural dimensions whilst the second case study demonstrates the advantages of assessing how different risk activities are being conducted.

Case study 1 – Tier 1 National Insurance Company

The first case study involved a tier 1 national level insurance company that was undergoing a transformation of their risk framework. The survey was provided to the entire population of the organisation.

To illustrate how specific the diagnostics can be, an example of a demographic comparison is provided, and then the key findings in this analysis are explained.

The following diagram compares the results for three groups:

- i) the overall population of people
- ii) those that fall into the younger population (age<30)
- iii) those with longer service periods (service 6-10 years)

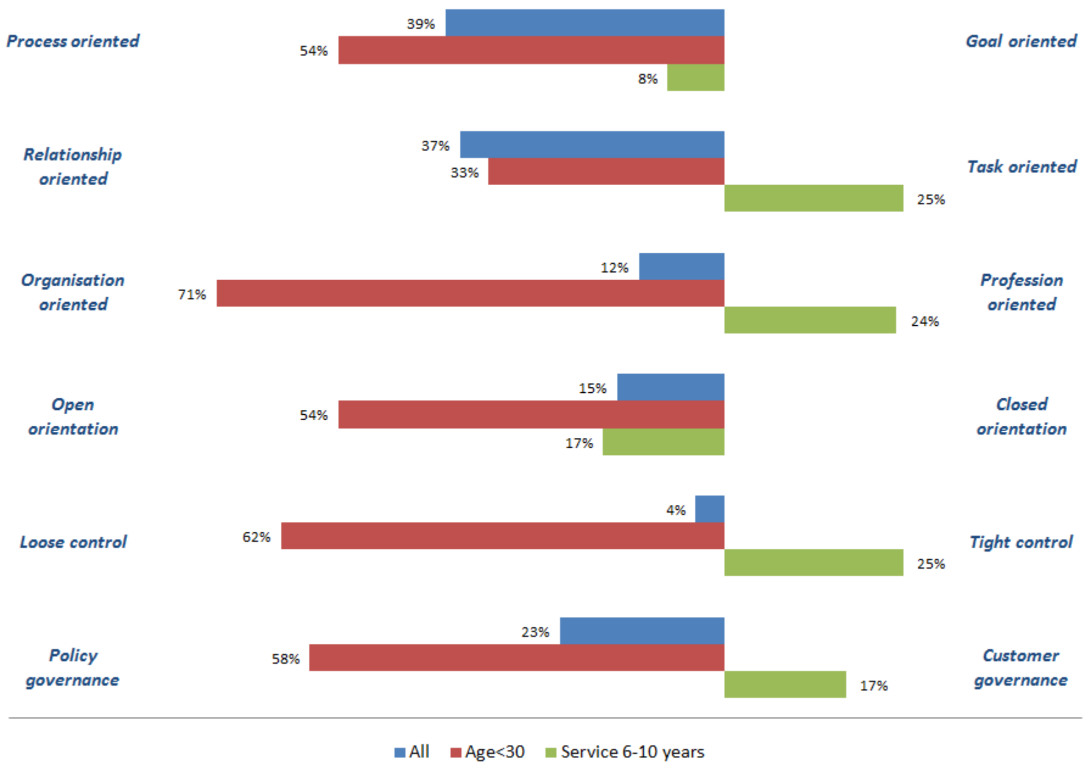

Figure 1, Example analysis from demographic results

The above results show that overall, organisational risk culture is predominantly characterised as:

- moderately strong in favouring a process orientation
- giving a moderately strong emphasis on relationships
- having a moderate policy driven culture

However, the detail shows that there are clear sub-cultures operating within this organisation. Younger generations are much more consistent in their views and likely to: be very strongly affiliated to the organisation (compared to only a mild affiliation for the overall population); be open oriented and feel able to make decisions about risks (to a much stronger extent than the overall population); and sense (to a greater extent than other groups) that they are governed by an administrative structure.

In stark contrast to the above, those with longer service with the organisation (6-10 years) have very different behaviours, which tend to be at the polar opposite to the younger generation. These cohorts tend to be much more goal oriented, focused on tasks, affiliated more towards a profession, prefer centralised risk control and have a pragmatic customer-, rather than administrative, focus when it comes to managing risks.

These highlighted discrepancies provided the starting point for discussions about the organisation's preferred position with respect to each cultural dimension. In some instances it was felt that a discrepancy was mild and not an issue whilst in other instances it was determined that greater alignment was needed.

In addition to these specific insights, which provided direction for risk development initiatives, the following noteworthy insights were also acquired from the survey:

1) The staff believed they were taken into account in the risk management process – a positive basis for strong engagement with effective risk management behaviours
2) Two contrasting views existed in the organisation in relation to the approach to risk management control – this discrepancy allowed the risk team to determine whether the holding of quite different views was a problem or not. There was concern where it occurred in the same functional area and this needed to be addressed
3) The review of risk management processes was lacking rigour – this led to missed opportunities to improve the effectiveness of these activities
4) There was a breadth of opinion across several dimensions – this breadth tends to indicate a weakening culture and therefore greater variety in risk behaviours

Strategies formulated:

i) Reinforcement of staff inclusion was achieved by encouraging risk conversations at all meetings.
ii) Review the ERM activities to re-structure and improve the process.
iii) Focused workshops planned for organisational departments but only to cover the aspects where disparity was deemed to be an

issue so as to align and maintain engagement with the organisation's risk policies.

Case study 2 – Multi-National Insurance Company

The second case study involved a multinational insurer that was similarly undergoing a transformation of their risk framework. The survey was issued to the global risk community of the organisation, with specific language tailored to each audience to reflect the cultural and linguistic heterogeneity of each geographical centre.

A sample of the results from this case study is presented in Figure 2, below. The following diagram shows the results for three of the risk processes broken down by each cultural dimension.

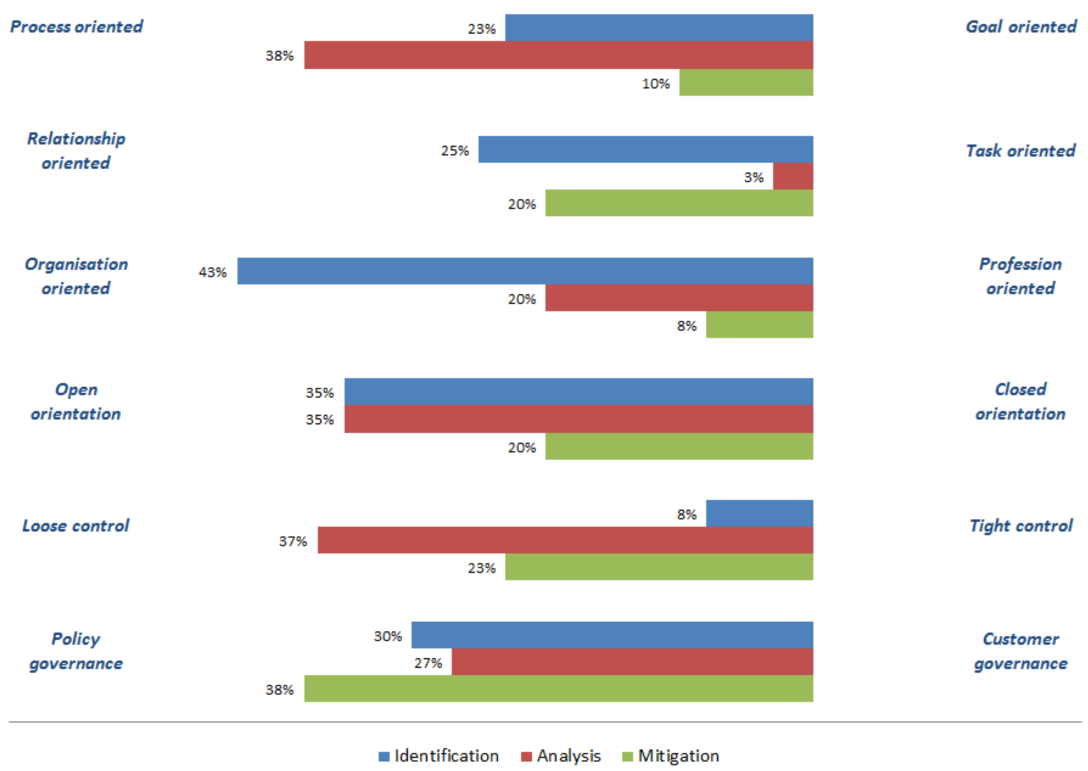

Figure 2, Example analysis from risk process results

The above results illustrate that, in this organisation, the three risk activities are dealt with in some quite contrasting ways.

The most significant of which are:

- Risk analysis is very focused on following specific processes, which contrasts to risk mitigation which is only marginally managed through established processes. This could be desirable, or a reflection of different sub-cultures existing within the organisation with separate groups mitigating risks their own way 'on the ground', as opposed to following standardised and visible processes.
- There is a very large difference in risk identification and mitigation with respect to people aligning more with their organisation rather than their profession. This reflects that a degree of responsibility for risk

identification is given to the organisation and mitigation is seen as an activity for experts.

- Strikingly the management of risk analysis and risk mitigation is less closely managed than risk identification indicating that the focus of risk management is on identification rather than analysis and mitigation.

Similar to case study 1, differences were also exhibited across various sub-groups within the global organisation as well as between how each risk activity was managed:

1) A striking gap existed between the senior management's understanding of the risk culture and the staff's understanding – this gap presented a concern that the company's risk policies were not as well understood as they were thought to be, creating a degree of vulnerability.

2) Responses to Risk Mitigation were managed in a culturally different way to how risk identification and risk analysis were managed – whilst a potentially concerning discrepancy, it allowed the risk team to acknowledge the different approach but, through discussion, arrive at the informed conclusion that some differences were appropriate to the business whilst others, such as taking personal responsibility for identifying and mitigating some risks, required addressing.

3) Some elements of the ERM practice were consistently understood across the organisation while others were less well understood – this reflected the history of the introduction of ERM to the organisation and helped to pinpoint areas that required a raising of awareness.

The significant differences exhibited across the various sub-groups within this organisation meant that a standardised approach to influencing behaviour would have limited impact. Instead, risk management approaches must reflect the needs of each sub-group in order to influence risk behaviour in the right way. Specific strategies employed include:

- A communication initiative to close gaps in understanding between both functional groups and hierarchical levels. The profile enabled communication that was relevant to the recipients increasing its ability to make an impact.
- A specific review of the ERM activities was undertaken to identify ways to release the bottle neck of analysis.

Conclusion

Having an effective risk culture means an organisation can more securely exercise measured exposure to knowable risks and rely on an in-built resilience, within reason, to unknowable risks. Yet, as most managers are aware, cultural change takes time and is usually achieved in several shifts rather than one major swing. It does require a balanced and consistent approach because a positive development in one cultural aspect, such as risk, can have detrimental effects on other important organisational characteristics, such as innovation.

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[i] (Finacial Stability Board, 2013) http://www.financialstabilityboard.org/press/pr_130212.pdf
[ii] Global Financial Crisis
[iii] largely non-western societies encountered during the colonial eras, hence the close connection between the words 'cultured' and 'civilised'
[iv] It is by no co-incidence that the term 'cultivation' first appears in the early 1500's, used in a figurative sense relating to the development of the mind or body through education and training.
[v] each sub-element is a required aspect of organising humans as a collective to achieve a company's goals – e.g. acquiring the right skills, distributing decision making power etc.).
[vi] Such as a lack of investment into sufficient training, inadequately experienced engineers in supervision and poor reactor design in the first place. Pidgeon, N. (2010) Systems thinking, culture of reliability and safety. Civil Engineering and Environmental Systems. Vol 27, No. 3
[vii] e.g. personal, group, organisational, industry etc.
[viii] Case study material supplied in conjunction with Milliman Inc.
[ix] The Enterprise Risk Culture Tool is available from www.systemicconsult.com