

The Financial Reporting Council (FRC) Corporate Governance Code (Risk Appetite, Culture and Behaviours)

AIRMIC Workshop
13th June 2017

Panel members

- Fiona Gilvey, Willis Towers Watson, Client Relationship Director
- Andrew Keeling, Amcor Plc, Director of Group Risk and Compliance
- Malcolm McCaig, Unum Ltd, Chairman

Behind the reality of culture, attitude and behaviour...

“....some had mindsets that divorced themselves from the impact of their actions on their clients and, more widely, the society in which they operate”

Source: Financial Conduct Authority (Financial Crisis)



...alleged Italian culture of bullying, with staff criticised for failing to meet targets...

“Behind every material operational risk event lies a cultural root cause”

Source: McKinsey Risk Practice



...breaking the rules to unmask “whistleblowers”...

“Culture, more than rule books, determines how an organization behaves”

Source: Warren Buffet



...allegations of bribery around the world...



...the “widespread fraud shows the powerful role that incentives can play...

...lies the role of leadership; accountable for the governance of culture

The UK Corporate Governance Code...

The Code expects FTSE company boards to 'determine the nature and extent of the **principal risks** it is willing to take in achieving their strategic objectives' by...

(Provision C.2. Risk Management and Internal Control)



...carrying "out a robust assessment of the principal risks facing the company"

(Provision C.2.1.)



...monitoring "the company's risk management and internal control systems on an ongoing basis"

(Provision C.2.3.)



...explaining how they have "assessed the prospects of the company", in meeting its liabilities

(Provision C.2.2.)

*The 2014 guidance notes defines this as determining its **risk appetite**, the company's willingness to take on risk, and ensuring appropriate **culture and behaviours** are embedded within the company*

...is a requirement under the Listing Rules to declare how the Code has been applied

The 2016 report on Corporate Culture and the role of the Boards...



...and the “importance [for companies] to have a continuous focus on culture, rather than wait for a crisis ”

Source: Sir Winfried Bishchoff, Chairman FRC, July 2016

Survey Questions

Question 1.

Under demanding circumstances, such as a major crisis, please assess the following six leadership attributes and behaviours on the basis of how you think your company will respond?

Question		1	To	5
1	Care and support for individuals and teams	Dispassionate and ad-hoc		Genuinely caring and consistently supportive
2	Making a decision	Slow, and solutions could be misguided		Fast, yet effective
3	Balancing interests	Strong bias towards personal interests over collective benefit		All stakeholders' interests respected equally
4	Challenging and collaborative	No challenge, each stakeholder is on their own		Constructive challenge and collaboration on solutions across function
5	Adhere to rules	Bends the rules to get a solution		Always works within the rules
6	Leadership style	Closed, do not want to hear bad news		Open and frank exchange of views

Question 2.

In performing your role, please indicate the level of engagement you have with the FRC Corporate Governance Code expectations

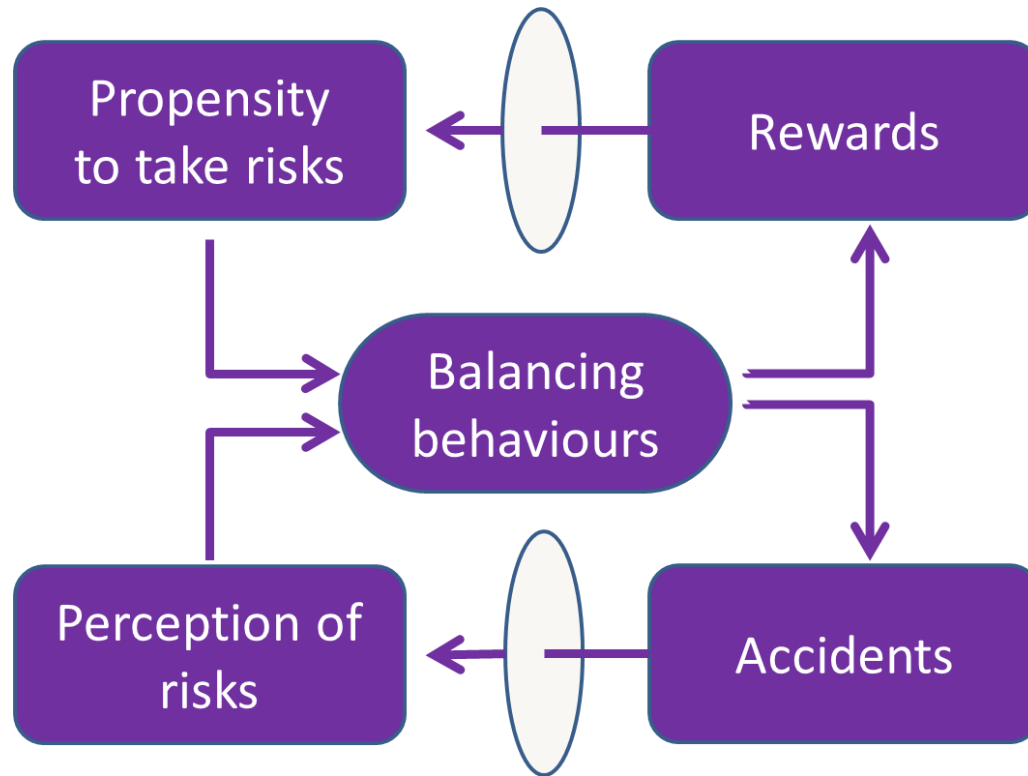
Code expectations	Possible response
Principal Risks	<ul style="list-style-type: none"> • Not applicable • Aware • Informed • Engaged • Key contributor • Leadership Role
Risk appetite	
Viability statement	
Sound risk management systems and controls	
Culture and behaviours	

Survey observations

- All attributed their leadership culture to be positively caring and supportive
- Two thirds generally felt their leadership were efficiently and effectively supportive in making decisions, as well as balancing stakeholder interests and providing collaborative challenge and debate
- Around two thirds felt their leadership would bend some rules in a crisis
- Those who engage with the Code in a 'leading' or 'contributory' capacity signified that they were less confident in their leaderships' attitudes and behaviours
- Respondents were less engaged in culture and behaviour than the other aspects of the Code

**Purpose of today is to share and debate our
collective insights in how we are meeting the
challenges of the Code**

“Objective risk is what the experts, usually statisticians and actuaries, know....

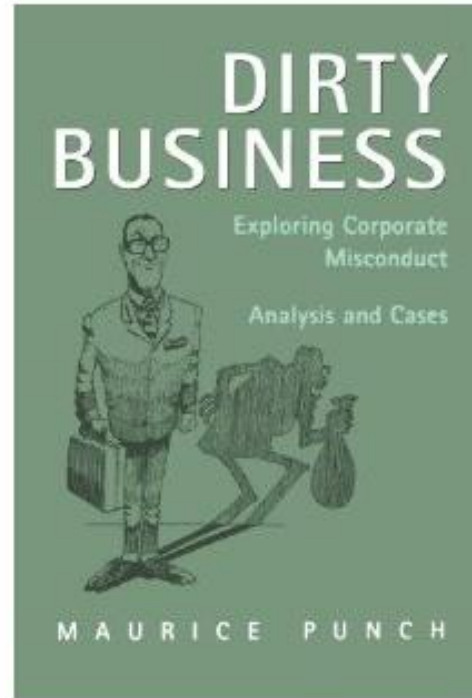


....and perceived risk is what the rest of us believe!”

Adams, J 1995, Risk, UCL Press, London.

Risk perception and decision making

“I believed I was doing the right thing”



Dirty Business: Exploring
Corporate Misconduct, Maurice
Punch. 1996: Sage Publications

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