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GUIDE AND ONLINE TOOL 2018

THE IMPORTANCE OF MANAGING CORPORATE CULTURE

THE ROLE OF THE RISK MANAGER

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A WELCOME FROM AIRMIC

"The focus for all organisations is to create sustainable value. Managing risk should be integrated with setting strategy, achieving objectives and value creation – and approached through collaboration between teams across all functions with relevant stakeholders. Culture is key to generating effective collaboration. This Airmic Guide and the associated Risk Culture Profiling Tool are designed to equip the risk professional to support their organisation in understanding risk culture, the link between risk culture and risk appetite and how culture can be positively harnessed in these times of transformational change.

Airmic would like to thank QBE for their help in preparing this toolkit, and for sharing their approach to risk culture. Please note that this toolkit was updated in 2018, taking note of Airmic member priorities and feedback. This does not invalidate use of previous versions of this guide."

Julia Graham
Deputy CEO and Technical Director, Airmic

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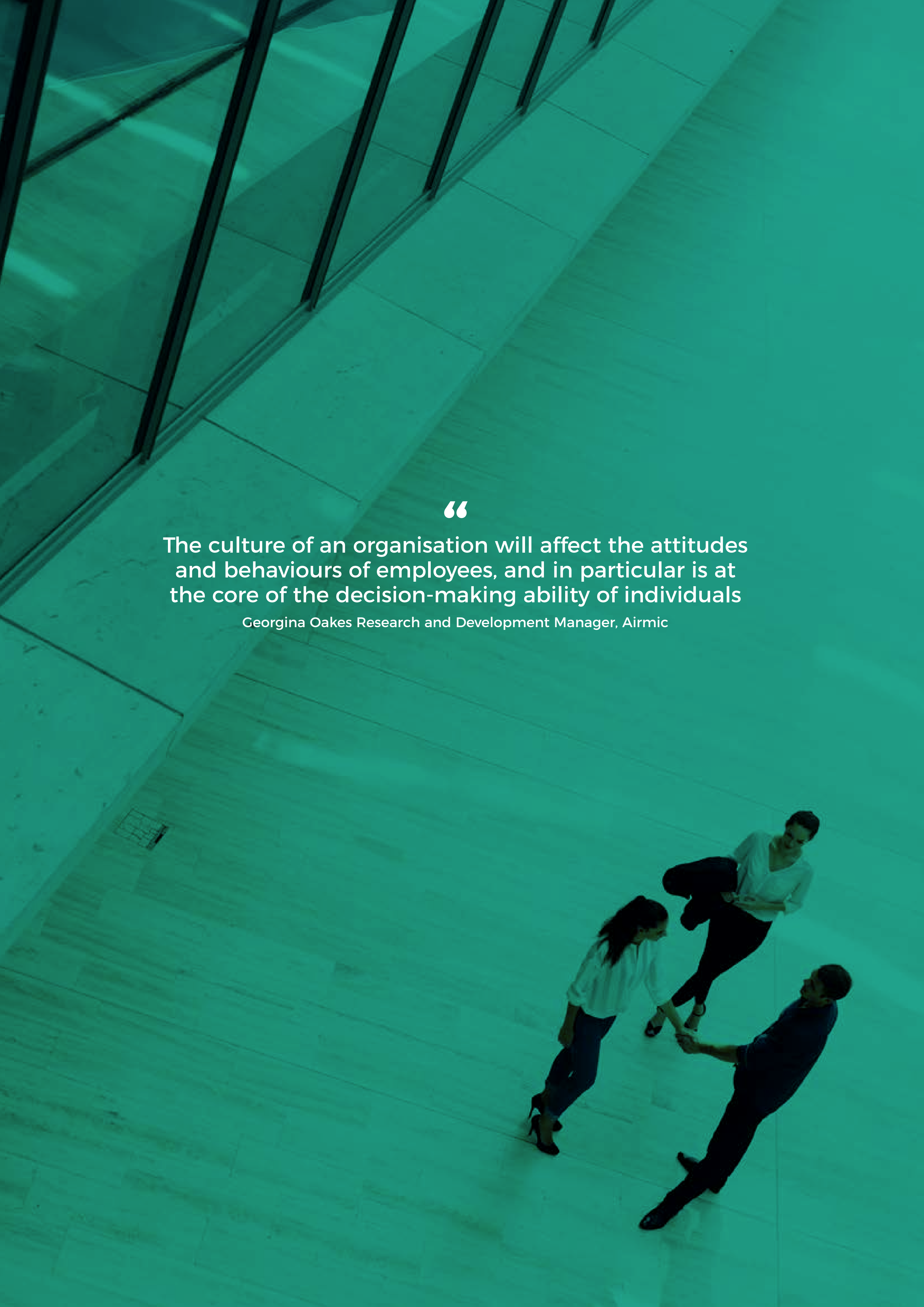

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The culture of an organisation will affect the attitudes and behaviours of employees, and in particular is at the core of the decision-making ability of individuals

Georgina Oakes Research and Development Manager, Airmic

INTRODUCTION

In an increasing changing, challenging and connected world corporate culture is more important than ever. Against a backdrop of globalisation, digitilisation, the rise of social media and changing business models we must focus on creating cultures that support and encourage our people. Indeed, it's noted that shortcomings in corporate culture such as silod thinking and risk aversion are among the main barriers to company success in the digital age. Regulatory changes such as the General Data Protection Requirements require organisation-wide shifts in culture, ensuring every employee understands their responsibilities. Senior management cannot wait for culture to change organically. They must develop better connected cultures that respond to changing customer needs and deliver profitability and sustainable value.

What is corporate culture?

The Financial reporting council define culture as a 'combination of the values, attitudes, and behaviours manifested by a company in its operations and relations with its stakeholders'.

The culture of an organisation affects the behaviours, attitudes and decision-making ability of its people. Whilst behaviours can be guided and monitored by tangible processes and control structures, values and attitudes are more difficult to influence. However, processes cannot legislate for all scenarios. An effective culture supports an organisation's people in understanding organisational controls and systems. It will enable individuals to appreciate how their actions can impact on the wider business and support them in responding appropriately to new and different scenarios.

Risk culture is corporate culture viewed through a risk lens. It bridges the risk appetite of the organisation with the management structures and systems. The risk culture will orient individuals to their own risk responsibilities and inform their risk-taking decisions.

It is no surprise that the recent update to the international risk management standard, ISO 31000 reinforces the importance of managing risk culture. ISO 31000 requires top management to demonstrate their commitment to risk management and its alignment with the organisation's strategy and culture. Organisations must also evaluate the effectiveness of the risk management framework on the behaviours of its people. Risk managers therefore have a major role to play in managing corporate culture.

Made possible QBE

The Airmic and QBE Culture Toolkit

The culture toolkit was developed by Airmic and QBE in 2016 and provides a framework for understanding and developing corporate culture. This guide provides a standard language that risk managers can use to contribute to the culture discussion. The accompanying online tool, created and shared by QBE, allows organisations to assess their culture against a standard framework and gain insights from best practice.

The toolkit has been relaunched for 2018, to reflect the feedback and needs of Airmic members. The online tool, originally designed for the professional services industry, has been tailored to be more relevant to organisations of all sizes and across all industries. Users must be aware however, that this is a generic tool and they will need to consider the individual priorities and aims of their organisation when undertaking a culture assessment.

THE IMPORTANCE OF MANAGING BEHAVIOUR AND CULTURE

2 The process for managing culture is a continuous and complex change management process with no one-size-fits-all approach. However, there is evidence that organisations that have invested in culture have seen clear benefits.

2.1 Culture is an intangible asset

An EY survey of FTSE 350 Board directors found that 92% of Board directors advise that investing in culture has improved their financial performance, including an improvement in operating profits. Unsurprisingly, investors are increasingly asking more questions about corporate culture and requiring tangible evidence that this is managed effectively. This growing interest in non-financial performance is further highlighted by 83% of Board directors advising that their shareholders factor organisational culture into their investment decisions (Governing Culture, EY, 2016).

Organisations that have addressed organisational culture report tangible benefits beyond financial performance, including improved employee performance, a reduction in incidents and near-misses and reduced regulatory issues.

2.2 Culture is a business enabler

Airmic's Roads to Resilience research identified 'People and Culture' as a key 'business enabler' that must be well developed for an organisation to achieve operational resilience. Resilient organisations were found to have a culture based on trust and respect where people have a high level of risk awareness. This can lead to improved risk reporting and a reduction in 'Board risk blindness' that enables organisations to respond to challenges and changes in their business environment.

The importance of cultural understanding is clearly shown during mergers and acquisitions, where a lack of cultural fit can prove disastrous. Significant time must be spent on cultural due diligence, including through consideration of how to embed and cross-fertilise the culture.

> “
> People can make perfectly designed and executed systems fail but, equally, they can make poorly designed systems work actually rather well. Functional behaviour contributes to the creation of long-term, sustainable value for the organisation, and the majority of its stakeholders.
>
> ACCA

2.3 Culture encourages positive risk taking

Effective risk cultures enable teams and indicators to take well-informed risks that are aligned with corporate strategy and risk appetite. Ineffective risk cultures can lead to inappropriate risk-taking. This can dilute efforts on inappropriate projects or alternatively lead to an overestimation of risk and a focus on avoiding risk thereby potentially reducing growth opportunities.

Effective risk cultures allow a more thorough assessment of risks, with a focus on long-term perspectives so that organisations can take advantage of more opportunities. In the event of failure, culture can act as a safety blanket, as any contributions to long-term success are still identified and developed. The value of long-term decision-making will continue to grow in the 'digital era' where businesses are driven by their ability to innovate.

2.4 Culture is a focus for external stakeholders

Ineffective corporate culture can cause a focus on short-term gains, leading to poor business behaviours and market conduct including inappropriate incentives, poor customer service and reduced investment. Therefore, external stakeholders, including regulators and the media are increasing their focus on culture and looking for clear evidence that it is being proactively managed.

Specific examples of regulation include;

The UK Corporate Governance Code places responsibility on Board directors to shape and influence corporate culture and the FRC has recently provided guidance for Boards on best practice in this area.

The Chartered Institute of Internal Auditors has identified risk culture as a key priority for audits.

The senior managers regime and senior insurance managers regime prescribe specific responsibility for culture to specific persons.

THE ROLE OF THE RISK MANAGER

3 The UK corporate governance code places responsibility on the Board to 'establish the culture, values and ethics of the company'. Developing the FRC definition, a positive risk culture is one where a value and belief in the importance of risk management is shared and understood across the organisation. Risk managers will be able to demonstrate their value to the organisation by articulating the drivers of culture and addressing these within the risk management framework.

Over two-thirds of Airmic members report a lack of embedded risk culture in their organisation in terms of their top three risk concerns (Airmic pre-conference survey 2016). Airmic members also report that despite their having regular access to the Board and senior management, the more general need to integrate risk management across the business units continues to be a challenge. Developing risk culture across the organisation cannot be the responsibility of any one team or individual. However, the risk manager is well equipped to sit at the centre of the discussion, collecting the relevant data and enabling the improvement process.

3.1 Culture and risk appetite

The Financial Stability Board identifies effective risk governance and risk appetite frameworks as essential to promoting a culture. This places the risk manager in a position to lead the discussion on organisational culture.

At the most senior level this includes agreeing how the risk appetite of the organisation will align to the corporate culture, and helping the Board articulate this across the business. Risk managers must take care to recognise the different risk appetites of different units and territories of the business: for example, it is appropriate for development teams to have a risk-taking approach, but support teams to have a more risk-averse approach.

3.2 Measuring and monitoring risk culture

The first stage of managing corporate culture is to understand the existing culture (See Section 5). Airmic members often report that their colleagues consider them 'outside of the business' and are therefore more likely to be open with them about their concerns regarding organisational culture and its impact on risk management. This can include acknowledging issues that they may not raise in discussion with their own team and line managers.

> “Having a common understanding about our risk appetite is important so I asked each of my directors around the Board table to articulate what they thought our risk appetite should be...this resulted in a greater shared understanding. Having rationalised an overall approach, we then found it easier to calibrate the tolerable risk threshold for each component of the business.”

Steve Marshall, Chairman of Wincanton PLC and Biffa PLC
(extracted from Chairman's Forum, Ensuring corporate viability in an uncertain world)

THE DRIVERS OF CULTURE - A FRAMEWORK FOR ASSESSMENT

4 QBE developed its risk culture profiling tool to assist organisations in addressing culture in a practical way and with a clear business benefit in sight. Airmic thanks QBE for developing this tool to meet the needs of Airmic members and sharing this with Airmic. Information on how to use the tool is given on page 22.

The tool identifies seven drivers of culture, as described in Figure 1. Organisations should consider all seven in order to:

- Identify what a positive risk culture consists of
- Understand the existing culture of the organisation
- Create an action plan to develop a more positive culture

Figure 1: The seven drivers of organisational culture

4.1 Leadership

The role of leaders and the 'tone from the top' in shaping organisational culture is clear. Culture is driven by the overall mission and aims of the organisation, and how these drive individual behaviours. It is therefore critical that senior leaders are able to clearly articulate the company mission and turn this into demonstrable behaviours when dealing with internal and external stakeholders.

Board and Executive support is imperative in driving cultural change, and gaining senior support for any investment in culture must be the first step. Senior leaders have both the power and the respect to influence culture, as well as the access and resource to develop it. To gain support individual leaders must fully understand their own responsibility for organisational risks and risk management and know how this links to corporate strategy.

"Our recent move into leading global collaborative research has caused a shift in our overall mission and brought forward a range of new strategic risks. I meet with each Executive Board director quarterly on a one-to-one basis. These conversations are relatively informal; we discuss the aims of the organisation, the way they will be achieved, what might derail us. The output of all conversations is reported back to the Board and the Executive team. This process enables us to identify any inconsistencies in the overall mission, views of the risks potentially facing us and avoids group think. Most of all, this flags the importance of each individual in the leadership team in managing risk."

Airmic member

Five indicators of a positive culture through leadership

1	Senior management (including directors and managers) are explicitly accountable for oversight and management of culture	Ensures a consistent message on company mission is agreed at the top and consistently cascaded across the business
2	Culture and its impact on risk management is an ongoing Board agenda item	Helps demonstrate and embed culture and risk awareness as integral to all issues discussed at Board level, including strategic planning
3	Senior management demonstrate a commitment to the agreed risk appetite and tolerances	Articulates a clear and consistent approach to risk across the business, allowing individuals and teams to understand the implications for their own role and objectives
4	Senior management are held to the same behavioural standards as the rest of the organisation	Demonstrates trust and respect at the most senior level, where individuals are seen to be held to account if there is misalignment in behaviours
5	Middle management are engaged early about their responsibilities for owning and maintaining culture	Creates an operating environment where local policies and procedures are aligned with the overall mission and objectives

4.2 People

The people of the organisation are the foundation of the culture, as the culture will ultimately affect their attitudes and behaviours in their role. A positive culture will stem from individuals fully understanding the mission and aims of the organisation, and their role within it. Additionally, a commitment from the organisation to focus on risk management, demonstrated through an appropriately resourced risk team or function, is critical.

It is important that all individuals are made to feel valued. They must not only understand their own responsibilities, but also be aware that they can voice any concerns or propose any improvements to existing structures and processes. Airmic members frequently report that some of the most useful risk information can come from employees 'on the ground', who can provide tangible evidence for concerns brought up in formal risk committees.

"We have focused on developing a culture of trust, relationships and open conversation through use of informal meeting space and cross-team collaboration. We have also intentionally removed unnecessary layers of risk governance. Specifically, employees are encouraged not only to report any risk or business concerns and issues, but suggest improvements or alternative ways of doing business. Employees are made aware that all suggestions will be acknowledged and considered, and that where there is a clear benefit, change can be brought in quickly."

Airmic member, charity sector

Five indicators of a positive culture through people

1	There is a focus on open communication, avoiding a 'blame culture'	Generates a two-way communication between employees and the organisation, encouraging individuals to have a positive, yet critical attitude and to report errors, incidents and anomalies
2	Employees are aware and recognise their risk responsibilities	Highlights that 'everyone is a risk manager', where individuals accept their risk-related goals and values
3	The risk management and related functions are appropriately resourced and structured, and risk is reviewed in line with changing internal and external environments.	Ensures that the risk function is resourced to satisfy the risk strategy and is assessed in its ability to deliver the identified risk outcomes.
4	Support of the culture and implications for risk management are appropriately encouraged, awarded and monitored formally	Encourages discussion and staff-initiated ideas for management of risk and culture
5	Culture is used to encourage individuals to identify and investigate potential for opportunity and reward.	Develops a culture that stimulates risk-taking conversations by individuals

4.2.1 Training and education

The continuous process of working with people ensures their ongoing understanding of the corporate mission, and their risk management responsibilities that support this. This has been a challenging area for Airmic members. Over 75% of members report that integrating risk management and risk education into the wider business units as one of their greatest challenges. (Airmic pre-conference survey 2016).

A consistent interpretation of corporate and risk management culture can be achieved by supporting process notes and codes with face-to-face training. Engaging middle- and line management early is critical here as they can be in the best position to observe culture and communicate ideas. Middle management should actively discuss any process changes or new risk controls with staff. This will allow staff to question, challenge and ultimately understand the overall mission of the organisation and their role within it.

> "IHG relies on hiring the right people, training and on the 'Winning ways' – a set of guiding principles that encapsulate a risk-aware culture. The Winning Ways were developed from a series of workshops with staff members...and because it summarised the ideas and words used by its people, these have been quickly accepted and internalised throughout IHG."
>
> (extracted from Roads to Resilience, IHG Case Study, Airmic)

Five indicators of a positive culture through training and education

1	Senior leaders support and engage in risk management training and development	Reinforces the ongoing focus on risk management, where risk and incident reports are reviewed at the highest level to identify risk priorities and any gaps in training
2	Staff training includes training on the risk implications of roles and risk management processes at all levels	Guarantees that all staff are adequately trained, including where new training needs are identified in line with changing business activities and the internal and external environment
3	Staff are clearly educated on the mission of the organisation through codes of ethics/conduct, including practical examples of situations and decisions people may face	Develops practical understanding of how all are expected to behave. Code breaches and the reasons behind these are investigated and communicated, further embedding the culture
4	Codes of conduct and values statements are further embedded into the company through interactive training and discussion	Translates values statements and codes into expected behaviours and activities across all business functions
5	The importance of culture and risk management are incorporated into training at all stages of the employee life cycle	Addresses company values throughout the recruitment process, induction training, briefing evenings and performance management

4.3 Reward and recognition

Effective reward systems were identified by Airmic members as one of the clearest ways to motivate individuals to perform ethically and in-line with the core ethics and values of the organisation. Inappropriate reward structures are found to nurture unethical or harmful behaviours.

Risk managers need to collaborate with Human Resources and Compliance teams to embed a positive risk-taking culture across the business. An individual's attitude to risk and the importance of appropriate risk-taking need to be assessed across all stages of the employee life cycle - recruitment, induction, training, succession planning, performance appraisal and termination.

> "Culture and behaviours are fully linked into standard performance evaluation process. 50% of the individual performance component of each employee's bonuses rests upon the delivery of agreed objectives, the remaining 50% rests upon how they deliver these objectives through the organisation's core values and behaviours. Therefore, employees understand the importance of their individual behaviours in terms of own and company-wide performance."
>
> FTSE 100 Head of Group Risk

Five indicators of a positive culture through reward and recognition

1	Individual responsibilities and role profiles are aligned to culture and values in job descriptions	Highlights core behaviours including risk awareness, providing a clear and common understanding of the organisation's vision and how each person contributes to its fulfilment
2	A balanced approach to performance management is taken at all levels	Aligns financial incentives to both the delivery of objectives and the behaviours used to achieve those objectives, e.g. compliance and risk attitude.
3	Examples of misaligned behaviour and resultant actions are made widely known	Reinforces the message that misaligned behaviours will not be tolerated whilst special recognition and reward will be granted to individuals exhibiting demonstrable risk consciousness.
4	Incentives are sufficiently long-term, reducing the focus on short-termism in favour of achieving continued, sustainable performance	Promotes a forward looking approach to performance through non-financial incentives such as promotion and leadership development opportunities.
5	Sales practices, customer offers and customer feedback are periodically reviewed and are in line with legal, regulatory and ethical boundaries.	Ensures that no misleading promotion, mis-selling or over-promising takes place.

4.4 Communication

Communications incorporates both risk communications, risk reporting and the communication of the culture and values of the organisation, both internally and externally. Internal communications ensure employees, partners and contractors fully understand the organisational purpose, values and risk management framework that supports this. External communications ensure that a consistent message about the culture and risk management framework of the organisation is provided to regulators and potential investors.

Effective culture and risk based communications should be shared with all parts of the supply chain, which can be challenging as suppliers and contractors will inevitably have their own values and standards. Risk and Procurement will need to work closely to demonstrate that preference will be given to suppliers that meet expected standards.

> “To better understand their supplier network and proactively deal with issues that could affect production...Jaguar Land Rover embedded specialist risk managers alongside the people who manage supplier risks as part of their day job. Working side by side, these teams identified opportunities to monitor... suppliers better so that issues and alternative solutions could be explored earlier.”
>
> (extracted from Roads to Resilience Jaguar Land Rover case study, Airmic)

Five indicators of a positive culture through communication

1	The corporate culture and how this links to the risk management approach is clearly communicated to all levels of the business through informal and formal channels.	Helps all understand the overall mission of the organisation and its successes and challenges
2	The external communications programme addresses the management of risk and culture	Provides clear information on risks and how this relates to the business strategy to investors
3	The culture and standards of the business are shared across the supply chain through a close collaboration between risk and procurement	Ensures values and standards are considered when selecting potential suppliers, and builds effective relationships with suppliers based on communication and trust
4	Risk information is shared openly across the business, and is reinforced by structured escalation procedures and response protocols.	Guarantees that risk achievements are noted and failures are learnt from, encouraging further information sharing.
5	An open communications culture is backed-up by documented risk management procedures built into all business activities.	Prevents black holes where risks may not be understood or managed

4.5 Service delivery and operations management

For a positive risk-aware culture to be fully embraced by an organisation it must be embedded into the day-to-day operations of the business. Therefore, 'hard' risk controls must be built and incorporated into all operational procedures, policies and systems. The importance of these controls must be highlighted to all.

The Risk function should work closely with Audit and Compliance to ensure that risk controls are continually observed, and breaches are highlighted and escalated, if appropriate. This understanding that risk management is part of everyday routine prevents the view that risk management is simply the job of the risk function, and can only be considered during risk workshops and by committees.

"Integrating our assurance means we have a clear line of sight across all our risks; from operational controls to independent audit results. Combined with our employee engagement programmes, including Speak Up, means our assurance includes both qualitative and quantitative data. This holistic view helps senior management better understand the risk profile of our business."

Jacqueline Conway, Group Risk and Compliance Director, Vodafone Group

Five indicators of a positive culture through service delivery and operations management

1	The values of the business are built into operational activities	Builds awareness of the core values, reinforced by senior managers demonstrating these values in their own behaviour and activities
2	Risk owners are clearly identified and made aware of their responsibilities	Guarantees ownership of risks and regular reporting on risk developments.
3	The existence of sub-cultures is recognised as these relate to different operational functions and territories	Allows sub-cultures that are more risk-taking or risk-averse where this is appropriate to the business. However, this is controlled by a consistent cultural framework understood by all
4	Operational activities and behaviours of suppliers and contractors are suitably scrutinised	Helps develop a consistent approach across all operations. Preference is given to suppliers that meet specified standards and training is supplied to supplier staff, where necessary
5	The control environment is continually monitored and audited and the effectiveness assessed. Management information is used to identify trends or correlations where controls have proved ineffective.	Assures the ongoing effectiveness of tangible controls. Expanded control tests and audits additionally investigated how and why controls are effective or ineffective.

4.6 Performance and service evaluation

An effective culture can lead to improvements in the ultimate output of the organisation, its products and service. This includes the continued delivery of high quality products that meet customer expectations, but also taking advantage of new opportunities to ensure resilience in a changing business environment. Assessment of products and services quality should feed into the culture management framework.

Quality control assessments can take a number of different forms, including customer surveys, penetration testing, mystery shoppers, bespoke research, focus groups and trials. Like all cultural assessments a mixture of quantitative and qualitative data should be collected to identify trends and motivations behind inappropriate service or quality.

> “Customers are at the heart of everything we do at Vodafone, and our customer promise forms part of our overall business strategy. Details of our CARE programme are published externally and internally, and promote our global standards. When assessing performance, both as a company and as individuals, the delivery of customer experience is a key metric, ensuring we deliver on our promises in every part of our business.”
>
> Jacqueline Conway, Group Risk and Compliance Director, Vodafone Group

Five indicators of a positive culture through performance and service evaluation

1	Staff fully understand what the business does, and how this generates value to its customers	Generates a common purpose for all, reinforced through regular written and spoken communications on the achievements of the organisation, and how this has benefited customers.
2	Performance assessments and controls for service delivery are considered in the risk management framework	Identifies, assesses and addresses all new product risks through risk and behavioural controls
3	Customer feedback and other external stakeholder commentary is gathered and investigated	Confronts organisational bias or ‘norms’ by taking a realistic attitude towards the positive and negative views of its products, people and systems.
4	Complaints, errors and near-miss information is examined and learning opportunities are identified and communicated	Deals with reported issues through timely and effective action plans that are monitored through to completion
5	Collaboration between different front-line, support and strategic teams means employees are empowered to discuss and suggest potential new opportunities or product improvements	Allows new ideas that have the customer in mind to be captured and the risks and reward to be fully investigated

4.7 Continuous improvement

The culture management framework must be flexible and be able to respond to changing business priorities and external developments. A culture that consists of open discussion and debate on how business is done will continue to improve, leading to corporate resilience.

The stated organisational values and behaviours themselves should recognise the need for all employees to learn new things and to look for ways to improve themselves and the business. Therefore, continuous improvement becomes part of the culture.

> "Organisations should never feel at ease, [this] thinking is widely applied at Drax Power Station to maintain a 'chronic unease', so complacency must not set in…The second trait of all successful safety organisations is that you look for broader learning, which is what we try to do every week with the 'Safety Pack'…we're looking at all the incidents that have happened across the site and we're looking for broader learning."
>
> Engineering and Safety Manager, Drax Power Station (extracted from Roads to Resilience Drax case study, Airmic)

Five indicators of a positive culture through continuous improvement

1	Management of corporate culture is recognised as a long-term goal with no 'silver bullet'	Ensures the periodic review of alignment and inconsistencies between the long-term corporate objectives and operational processes. Short term and long-term action plans are put in place after prioritising areas of significance.
2	The impact of addressing emerging risks in the business environment are fully investigated	Recognises the impact of the changing internal and external environment on the operational change programme and identifies the implications for the culture and risk management framework
3	The organisation's long term business model is visible to all.	Ensures all recognise their role in the long-term corporate strategy and can align their own objectives and goals with those of the organisation, building a sustainable corporate identity
4	Qualitative and quantitative evidence, e.g. customer responses and cost-benefit analysis is captured and reported	Demonstrates the value of continuous improvement activities across the business
5	Corporate culture is incorporated into the work of internal audit	Makes best use of the Audit function's access across the organisation, by helping to remedy and improve internal controls that are not sufficiently controlling behaviours. External auditors can also be used, particularly in the initial assessment of risk culture

ASSESSING YOUR ORGANISATION'S RISK CULTURE - THE ONLINE TOOL

5 Airmic thanks QBE for developing and sharing their online tool that organisations can use to assessing their base line culture. A user guide to the tool is on page 22.

Risk managers will be familiar with undertaking operational and strategic risk assessments across their organisation. Like all risk control programmes, before a positive risk culture can be developed the existing 'base line' culture must be established. This baseline can be used to identify cultural issues affecting risk control, to benchmark against competitors, and to track the success of cultural change initiatives. Therefore, organisations with a mature risk management framework are increasingly assessing how well they are addressing their risk management culture.

"We have found that even those organisations with effective risk control frameworks can still continue to suffer losses. On further investigation we found that many of these losses have arisen from people acting outside of management control systems. Therefore, we are increasingly asked to consider the potential risks associated with the organisation's people, including assessing the impact of the culture of the organisation."

Deborah O'Riordan, Practice Leader, Risk Solutions, QBE European Operations

5.1 Conducting an assessment - employee surveys

The most common method of assessing culture is through 'bottom-up' confidential employee-wide surveys. These exercises investigate employee views on a broad number of areas including:

- Understanding of company strategy, mission and values
- Their own relationships with colleagues, team leaders and external stakeholders
- Their views of HR policies, including remuneration and career possibilities
- Their understanding of business risks and their own responsibility for monitoring and managing these

Employee surveys have clear relevant outputs;

- Provides a mechanism for employees to raise issues of improper ethics or behaviours, including the behaviours that employees are encouraged to take
- Provides validation on how strategy and culture is understood and aligned across the business
- Allows comparison of the views and motivations of different business units, territories and levels of seniority

Comparing against risk data

Employee surveys are normally managed by the communications or HR teams, but the Risk function should strive to be involved in developing the survey and receiving the results.

Survey output is particularly useful when compared against other risk culture assessments, for example, employee interview, performance appraisal information, whistleblowing and other 'warning' systems and traditional risk information, for example, incident and audit reports. This comparison can generate a better understanding of the motivations of employees, and provide an explanation for risk incidents that continue to occur despite rigid controls and processes.

"We conduct an organisation-wide employee survey annually and the results are shared across the senior management teams. Within the risk teams we correlate areas of discontent or poor behaviours against incident reports and near-misses, providing evidence of the importance of organisational culture. Areas of weakness are identified and improved upon. An additional benefit is that those teams identified as having effective risk management and risk -taking behaviours can use this to support their business proposals."

FTSE 100 Head of Group Risk

Risk managers are able to contribute to the management of culture through the wealth of risk data they collect from operating systems and reporting processes, including near miss and loss data. This formally reported data can be used to identify potential poor behaviours. This should be supplemented with complaints records and customer survey information. If a culture exists where employees are well aware that incidents or poor behaviours are likely to be investigated, they can be more compelled to follow risk controls and processes and report any incidents or inappropriate behaviours they have encountered.

"A safe environment that encourages people to speak up can be enhanced through the use of data and technology. It is important to remember that assessing and managing culture relies on two elements; employee encouragement and technological leverage. In a subtle way, the technology helps employees to be honest."
Papiya Chatterjee, Senior Policy Officer, Chartered Institute of Internal Auditors

5.2 Conducting an assessment - top down review and leadership assessment

Section 3.1 identified leadership and the 'tone from the top' as the starting point for driving a positive risk culture. The power and validity of employee surveys can be greatly increased by supplementing them with risk culture assessments from the Board and senior management perspective.

Airmic recommends that an overall view of corporate culture, its impact on risk and the risk framework that supports the culture is undertaken through group discussion with leaders, chaired by the group risk officer.

Leadership assessments

An additional perspective can be found through psychometric testing and 360° reviews of senior management. These exercises can be used to identify individuals risk profiles and the combined profile of the management team, which can be powerful in establishing whether the right tone is being set form the top of an organisation.

'Leadership assessments are best conducted with the sponsorship pf the Board. The results will clearly identify how a corporate culture is manifested in different individual behavioural tendencies and risk orientation. This is useful in understanding how a consistent message on culture and risk-taking behaviour can be established among the senior team and be communicated across the organisation.'
Alasdair Wood, Director, Willis Towers Watson

DEVELOPING A POSITIVE RISK CULTURE

6.1 Developing culture - GAP analysis

Having identified the base line culture of an organisation, the risk manager can clearly identify the areas of weakness. The risk manager can easily identify development opportunities around each of the culture drivers identified in this paper. Alternatively, if the assessment has been undertaken for several areas of the business, weak areas can be identified within specific business units or teams.

The risk manager will need to work closely with the Board and Executive along with business functions including Audit, HR and Operations to prioritise the improvements that can be made. Organisations must be aware that change management initiatives such as this can take several years, and short-term and long-term priorities must be set. Organisations can then create action plans and conduct annual reassessments to track progress and improvements.

"We conducted a risk culture assessment with a professional business and identified three areas of weakness: incident training and education, risk monitoring, and communications to regional areas. The organisation prioritised the third issue as the assessment scores were notably lower in the regional offices compared to head office. We worked with the organisation to install a communications management system that shares data more effectively across the business. This was backed up with regular face-to-face internal meetings in regional offices to ensure a consistent interpretation of head office communications. A follow-up risk culture assessment found a reduction in the gap between the head and regional offices."
Deborah O'Riordan, Practice Leader, Risk Solutions, QBE European Operations

Creating a positive culture
Organisations will often look to introduce additional risk policies and compliance controls when implementing cultural change. However, creating an effective culture essentially means creating a business environment that makes it easy for employees to do the right thing. Therefore, approaches must go beyond just procedures and processes that inhibit inappropriate behaviour as business pressures can lead to employees working around such controls. Organisations have found effective results by supplementing mechanistic policies with social changes such as (Governing Culture, EY 2016);

- Management-level training programmes
- Enhanced management-level communications with employees
- Employee codes of conduct and ethics codes for employees with a more practical focus
- Employee suggestion and innovation programmes

6.2 Risk culture and insurance

A clear driver for integrating culture management into the risk management framework is the potential benefit in terms of insurance purchasing. This is particularly relevant where understanding employee motivations can help reduce incident occurrences.

Insurance managers should map the responses of cultural assessments against claims and loss data. There is clear potential for this analysis for organisations managing large motor fleets, where employee views can greatly enhance the hard data traditionally collected by the insurance manager and the insurer.

'Transport organisations can assess the business culture and how this affects pressures and motivations from the driver perspective using a driver survey, and supplement this data with individual driver safety profiling. We can map this driver-specific information against hard data such as claims figures and telematics information. This gives an excellent picture of both the controls and the people-related process factors required to reduce claims figures such as bonus metrics and manager training. Where organisations can demonstrate a clear correlation between an improved culture and reduced loss incidents they can reduce the total cost of risk and may be in a better positon to negotiate insurance premiums or risk management bursaries.'

Alasdair Wood, Director, Willis Towers Watson

6.3 Developing a 'just culture'

Organisations may want to consider the value of adopting a 'Just Culture'. This is a notion originally developed by Professor James Reason and promoted by the Chartered Institute of Internal Auditors which clearly distinguishes between appropriate and inappropriate behaviours and ensures that blame is apportioned appropriately. This is quite different from the 'no blame' culture that many organisations strive for.

Just culture identifies three types of behaviour;

- **Simple mistakes and behaviours.** These should be controlled by systems and processes where possible. All individuals can and do make mistakes and should not be blamed when these occur.
- **Risky behaviours.** Where these are identified, the individuals in question need to be more effectively coached and educated on the consequences of such behaviours and on how to be more risk aware.
- **Reckless behaviours.** These can include actively ignoring organisational processes or overriding risk controls. Individuals demonstrating such behaviours need to be disciplined appropriately.

A just culture must be underpinned by clear risk reporting, risk communications, and in particular, how this information is dealt with. Employees should be made clearly aware that reporting concerns or issues will be welcomed. Where an individual is found to be at fault there should be a clear differentiation between whether this individual is given additional training or whether they are disciplined.

"Just culture has its roots in organisations where safety is a key strategic risk, such as those in the aviation or energy industries. However, this concept is applicable to all sectors as mistakes happen in the best run-organisations. An effective just culture is about differentiating between mistakes and inappropriate activity. The key thing how organisations respond and use the opportunity to improve their operational processes when things go wrong."

Papiya Chatterjee, Senior Policy Officer, Chartered Institute of Internal Auditors

THE AIRMIC AND QBE RISK CULTURE PROFILING TOOL

Airmic thanks QBE for sharing its Risk Culture Profiling Tool, and for tailoring this in response to the requirements and feedback of Airmic members. Airmic members can access the tool for free and use it to:

- Benchmark your organisation against a comprehensive risk culture framework
- Identify areas of focus and create an action plan to further develop your risk culture
- Download a results report for reference to help set and track improvements,
- Obtain anonymised data and benchmarking information

Accessing the tool

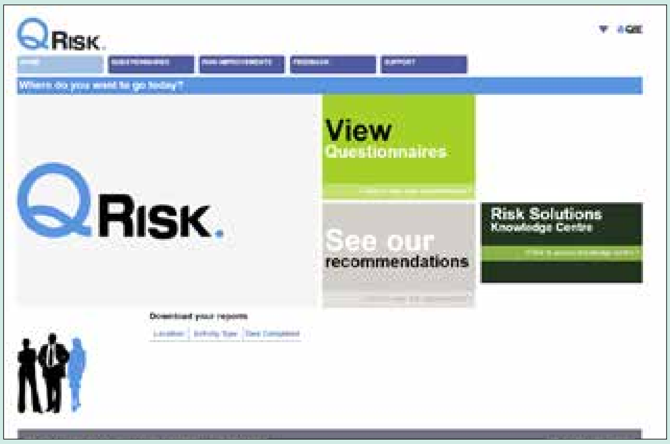
1) Apply for access here. https://www.airmic.com/corporate-culture-toolkit
2) Register for a QRisk account

Using the tool

1) Understand the drivers, behaviours and indicators

- The tool presents a series of statements that reflect the seven drivers of culture
- Familiarise yourself with these before engaging the wider business

(Note: This is a generic tool and you will need to consider the drivers and behaviours in the context of your own orgnisation and industry)



2) Assess your own position at a corporate level

- Evaluate your current position against each statement on a scale of 1 – 7.
- (1 = little activity, 7 = mature and effective practices)
- Use the example indicators and behaviour listed beneath each statement to make the assessment

(Note: You will likely have your own examples, more appropriate to your organisation / industry. Please consider these when scoring your own position)

3) Move through the statements

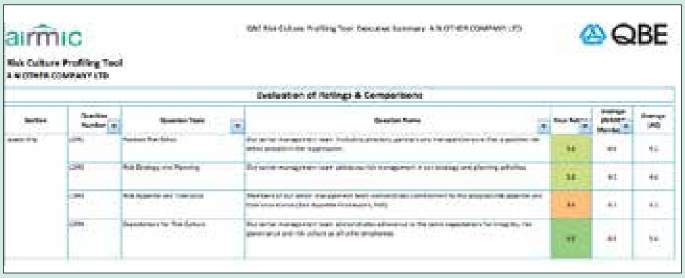
Users can save their position or move from driver to driver

4) Submit your first assessment
Initial access allows an organisation to submit one online assessment

5) Review your results

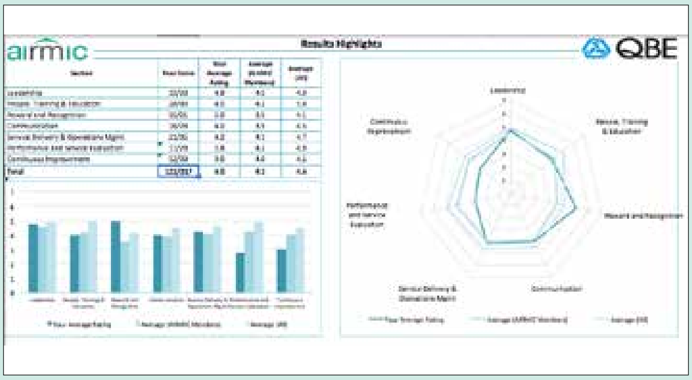
- Immediately download a summary report to capture ratings and agreed actions
- Identify areas for improvement and use to monitor progress

6) Benchmark against competitors
Review your individual assessment against Airmic member and industry averages using the benchmarking report provided shortly afterwards



Airmic recommends:

- The tool can be completed alone however, a better result will emerge by involving senior managers across the different businesses and functions in a roundtable
- The group can discuss each statement in turn, providing a broader view of the organisational culture, and highlight any inconsistent views



Advanced methods for using the tool

Organisations can use the tool for internal benchmarking by completing and submitting multiple assessments. Please contact support.qrisk@uk.qbe.com to request premium access to do so (at no extra cost)

1) Comparative assessments
Cultures vary across different territories or divisions of the organisation.
Take the assessment for each location/division to compare internal weaknesses.

2) Comparing perceptions
The perception of culture can vary wildly within a business.
Undertake the assessment with senior managers, team leaders and staff to identify inconsistencies.

Help and support

All results are held on the QBE QRisk server

Airmic member results are held separately from other QRisk data and will not be used for any underwriting purposes

Technical and usage queries:
Support tab on QRisk homepage
support.qrisk@uk.qbe.com
Registration queries:
enquiries@airmic.com

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This paper was prepared using desk-based research from the following papers, supplemented by interviews with Airmic members and sponsors.

We would also like to thank Dr Alasdair Marshall, Lecturer in Risk Management, Southampton Business School, University of Southampton, for his advice throughout the project.

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Notes

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