

Organisational Risk Culture

Risk Department Takes an Active Role

Organisational Risk Culture

Risk Department Takes and Active Role

Risk culture, arguably the least visible but most vital aspect of risk management, is not a new concept for Operational risk practitioners. It is an integral part of the discipline, and features in the first principle of the Basel Committee sound practices¹, refreshed and strengthened in 2021.

By design, all the elements of an Operational risk framework inevitably touch upon cultural themes such as transparency, accountability and no blame. Organizations where the right values have been embedded are less likely to suffer damaging operational risk events, and stand a better chance of dealing with them effectively if they do occur.

Historically, cultural efforts in most organizations have been (and still are) led by the Human Resources function.

Lately, however, there has been a positive shift in the Risk Department being more engaged and demonstrating leadership when it comes to organizational risk culture. A live poll conducted by the Best Practice Operational Risk Forum in May 2021 revealed that the majority of Operational risk professionals are closely involved, with 39% of respondents leading the programs, 22% participating and 39% at least somewhat involved (fig 1).

Involvement of Op Risk in Risk Culture efforts

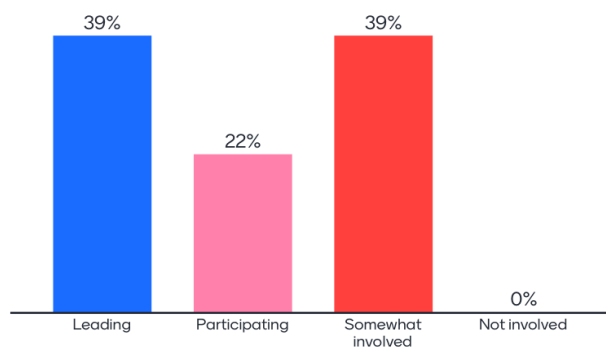


Fig 1 Source: Best Practice Operational Risk Forum

Organisational Risk Culture

Risk Department Takes and Active Role

Delving a bit deeper, it is useful to understand what these efforts include, and how broadly - or narrowly - *risk culture* is defined.

Risk culture, according to the Financial Stability Board², concerns itself primarily with *risk awareness, risk taking and risk management*. Often, organizations focus on a firm's broader *culture* (rather than its *risk culture*), with efforts centred around developing and promoting the right behaviours and mindsets.

Also, in recent years the ancillary terms *conduct* and *conduct risk* have become more prominent in supervisory publications, speeches and discussions. The focus here is on detrimental outcomes for customers and markets.

The concepts of *culture, risk culture* and *conduct* are closely intertwined, and organizational programs have a slightly different focus, depending on the firm's priorities, geographical location, and regulatory environment. The Best Practice Operational risk forum examined and evaluated the scope (fig 2):

Risk Culture efforts focus on

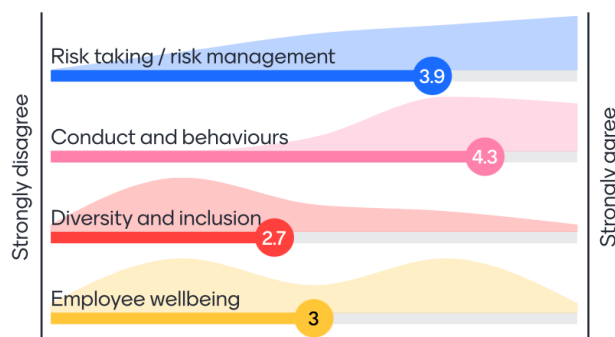


Fig 2 Source: Best Practice Operational Risk Forum

Organisational Risk Culture

Risk Department Takes and Active Role



Conduct and behaviours are at the heart of institutions' cultural efforts, in line with the regulatory focus;



Not surprisingly, this is closely followed by more traditional aspects of risk culture, which include attitudes towards risk management;



What was historically an HR-led space of *employee wellbeing*, is now actively influenced by the Risk Department. Here, Operational risk function stepped in to monitor the level of *people risk* via Key Risk Indicators (KRIs) and promote the discussion to the top of the senior managements' agenda.



This is a prominent development triggered primarily by the COVID-19 pandemic, where *people risk* remains elevated and staff wellbeing is a key topic for firms;



In contrast, Diversity and Inclusion (D&I), the least developed component, needs more focus.

D&I is an interesting part of the equation. This topic is far from new, and there is an understandable interest from HR supported by an ever-growing list of studies confirming that a diverse and inclusive workforce 'unlocks innovation and drives market growth', as noted by the Harvard Business review³; as well as provides companies with a 'competitive edge over their peers', per Forbes⁴.

From risk management perspective, there are two additional aspects.

Firstly, the COVID-19 pandemic has exacerbated inequities and historic

challenges of diverse groups. For example, people from minority ethnic backgrounds proved more susceptible to Covid-19 and were disproportionately affected. Organizations need to consider how is this risk recognized and managed. A recent report from McKinsey⁵ suggests that 'diverse employees are struggling the most' and 'fear losing ground at work'. In this context, the focus on D&I goes hand in hand with the Risk Function's overall involvement in the monitoring and management of *people risk*.

Organisational Risk Culture

Risk Department Takes and Active Role

Secondly, D&I is escalating in importance as a result of the ESG (Environmental, Social and Governance) developments, where D&I is a significant part of S. In most firms, it's the Chief Risk Officer (CRO) who assumes the responsibility for spearheading organizational ESG activities, and D&I naturally becomes a topic of the risk agendas and risk conversations.

Overall, the COVID-19 pandemic is placing a strain on maintaining firms' risk culture, even for organizations that purport to have a winning set of values, attitudes and behaviours. Enforced and prolonged working from home led to partial loss of *informal interactions*, which in turn, somewhat eroded corporate cohesiveness. The D&I in many firms also slipped down the list of priorities.

Adopting a constructive approach, practitioners discussed what activities could give a boost to firms' practices. Right *tone from the top* repeatedly appears at the top of live polls and continues to be deemed the most impactful for maintaining and boosting organizational risk culture (fig 3).

Reflecting on this poll, does it look like a picture-perfect *textbook answer*, as tone from the top is cited in most if not all research papers, publications and articles on risk culture? The Best Practice Operational Risk Forum concluded that it does represent practitioners' views; leadership and direction from senior executives – closely followed by guidance and training from the Risk function - makes a remarkable difference.

Rank efforts that will enhance Risk Culture the most during COVID-19 pandemic



Fig 3 Source: Best Practice Operational Risk Forum

Organisational Risk Culture

Risk Department Takes and Active Role

In conclusion

In conclusion, there is a positive shift in Risk Department being more engaged and demonstrating leadership when it comes to organizational risk culture. As it relates to D&I, CROs and Heads of Operational Risk increasingly act as chairs of D&I Committees, and hopefully the topic will continue to receive focus and remain a prominent feature of risk management.

References

¹Basel Committee on Banking Supervision (2021), *Revision to the Principles for the Sound Management of Operational risk*,

²Financial Stability Board (2014), *Guidance on Supervisory interaction with Financial Institutions on Risk Culture*

³Forbes, *Diversity Confirmed to Boost Innovation and Financial Results*

⁴Harvard Business Review (2013), *How diversity can drive innovation*

⁵McKinsey & Company, *Diverse employees are struggling the most during COVID-19—here's how companies can respond*

How We Can Help

Contact elena@theopriskcompany.com to discuss:

-  Risk culture Assessment
-  Risk Culture Aspects
-  Focus Groups
-  Risk Culture Dashboard
-  Training and Education



Elena Pykhova, Director and Founder,
The Op Risk Company



elena@theopriskcompany.com



www.linkedin.com/in/elenapykhova

