

## Helping your people really understand risk culture and risk appetite

In the current business climate, your organisation, like many others, is striving to be agile and flexible. You want your people to make sound decisions to determine how best to protect your investment and innovate in your business.

The outcomes of these decisions should provide you with a competitive edge, helping you identify where you can reduce costs, increase service delivery effectiveness and enable staff to better connect with your organisation's objectives and strategy.

Protecting your investment and being innovative in your business practices are reliant on your people having a clear understanding of the organisation's risk culture and appetite.

Through the lens of risk management, this white paper explores ways to reflect on your organisation's risk-management behaviours and offers some suggestions for explicitly identifying your risk culture and appetite.

### Risk culture

Risk culture is a subset of your organisation's culture. In organisations today, risk culture is generally implied, making it difficult for staff to know what is expected of them, or indeed, how to be effective risk managers. Many organisations intuitively know the type of risk-management behaviour they want or need, yet struggle to communicate this behaviour to staff and stakeholders.

This is problematic because risk culture is fundamental to creating and protecting organisational value. It is the set of behaviours, values and beliefs which is shared by the people within the organisation and which demonstrates the 'way things are done'.

Risk culture is active when:

- staff are able to make decisions about what to protect and where to innovate.
- there are clear lines of accountability.
- behaviours are measured, supported and rewarded.

### Risk appetite

Risk appetite is essentially the determination and articulation of the amount of risk your organisation is willing to accept in pursuit of its objectives. This will vary across your business, as the following examples show:

- The role of a Researcher is to gather information on certain topics. Research helps in monitoring progress and making new discoveries. Of course, the road to discovery is lined with failure. Researchers need to innovate, and to do this they take calculated, measured risks. They are risk-takers.
- The role of a Regulator is to codify and enforce rules and regulations. Because a Regulator protects or ensures conformance, they are generally conservative. They are risk-averse.

From these examples, you can see that a Researcher's risk appetite is greater than a Regulator's risk appetite. Do you know where you need to take risks or where you need to be risk-averse across your business?

## Realising risk culture and risk appetite

An active and explicit risk culture and risk appetite will support your organisation in seeing and harnessing opportunities and sustaining organisational performance.

Risk culture and risk appetite are realised when staff are empowered to take risks in pursuit of objectives, the acceptable level of risk is understood, and there is clear governance, decision-making and communication.

## Some ideas on identifying risk culture and risk appetite

Decision-makers generally agree they want to determine the risk-management behaviours that are appropriate for their business. They also want to actively identify and communicate a suitable risk appetite to staff and stakeholders.

There are many techniques you can use to engage your Board, leadership teams, staff and stakeholders in doing this. Here are just a few examples:

- (a) Engage staff across your business by setting up a series of discussions to identify potential sources of risk, the areas of the business which should be protected and the areas which should embrace innovation. Plot these areas on a scale from *Protection* to *Innovation*.
- (b) Engage your Board by seeking its responses to a series of questions that might include the following:
  - Would the Board tolerate a 20% decrease in generated income? (Financial appetite: strategic)

- If there is a need to put in an insurance claim, how many times in one year could the business manage the deductible payment? (Financial appetite: operational)
- The organisation meets the minimal standard of compliance. But should the compliance effort be higher in some parts of the business? If so, why? (Compliance appetite: strategic and operational)

Obviously these questions need to be tailored to your business.

- (c) Engage your staff and stakeholders by presenting scenarios to them and recording their responses. This discussion and feedback will provide you with rich information on current risk-management behaviours and risk appetite.
  - (d) Document current risk-management practice by meeting with staff and collecting relevant anecdotes. Collate this information and discuss it with your leadership team so they can identify the type of risk-management behaviour to reinforce and the type of behaviour to discourage.
  - (e) Review existing data sources such as culture survey information to identify organisation behaviour. Analyse this information in light of the risk culture and appetite responses you have collated. Identify patterns and discuss what this means for your organisation.
  - (f) The following tips may also help you identify the parts of your business where the risk appetite is greater than your organisation's overall risk appetite:
-

- Consider the programs or projects of the business that are new or where performance has not yet been assessed.
- Review your databases for near misses and incident data and determine if there are any trends that are of concern or need monitoring.

## Empowering your business

The key to identifying risk culture and risk appetite is engaging people at all levels of your organisation.

The active identification and communication of risk-management behaviours that support your organisation is powerful for staff, powerful for your stakeholders and powerful for your business.

*GC Risk Support Services will support your organisation by identifying your risk culture and articulating your risk appetite.*



### ***About the author:***

*Gabrielle Castree, Director of GC Risk Support Services, is a competent risk services professional.*

*GC Risk Support Services builds on existing risk investment, improves governance, decision-making and performance, and better connects staff to strategy, core values and the business through the discipline of effective risk management.*

*We will enhance your risk-management program, optimise your risk-management function and help you better understand your risk exposures.*

*Published September 2013 –[www.gcrisk.com.au](http://www.gcrisk.com.au)*

---