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# CAN YOU MEASURE AND DISSECT AN ORGANISATION'S RISK CULTURE?

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**R**isk culture is a complex, forward looking and qualitative component of an organisation. Further, it requires unique approaches in relation to risk management and mitigation.

Its DNA begins with understanding a firm's inherent culture, which considers the organisation's history, strategy, values, management and industry sector and how these interact within each subculture. It then monitors and adjusts the organisation's cultural evolution over time.

However, a failure to effectively implement and manage organisational risk culture can result in drastic internal and external consequences, including fraud, corruption, misappropriation, cybercrime and economic crime. Therefore, it is no surprise, since the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, organisations are beginning to assess how their culture overlays and integrates with their overall risk management framework and system.

This article dissects the four key focus areas that should make up an organisation's DNA to encourage a good risk culture: top-down tone, relationships, capability and sustainability.

## 1. Top-down tone

You have probably heard about the importance of having the right 'tone at the top', which refers to the idea that organisations' leaders set the 'tone' — or standard — of ethical and business behaviour. But what does that actually mean and how can it be applied?

As history has shown, the words and actions of management permeate throughout the organisation from the top-down. This 'trickle-down' effect means that it is crucial for management to not only communicate the right 'tone' for acceptable behaviour, but to 'live and breathe' these values in all their actions, particularly those that represent and promote the values of honesty, integrity and transparency.

However, while tone is set from the top, creating clear and fluid communication lines, instils positive ethical values, because everyone feels part of the culture. Overall, when assessing organisational tone, the following aspects must be considered.

### Modelling appropriate behaviours and actions

- What values make up the culture you are looking to have in your organisation?
- What steps are you taking to build a great culture?
- Are you as a leader truly 'living and breathing' your organisation's values in your everyday actions?

### Cyclical communication

- Are you regularly and transparently communicating organisational changes and performance within the organisation and allowing for feedback?

### Articulating risk appetite and accountability

- What is your organisation's risk appetite or tolerance?
- Is this clearly communicated to everyone in your organisation?

## 2. Relationships

Good relationships are the backbone of a robust business. Organisations strive to forge meaningful, collaborative and beneficial relationships with clients and customers, and this should be the same with their employees.

Toxic employee-management relationships can make an organisation more susceptible to internal risk.

Factors driving this situation can be:

- unrealistic budget expectations from management
- excessive pressure to achieve high targets
- misaligned incentive programs
- autocratic management
- inadequate training
- absence of a confidential reporting avenue.

As such, organisational leaders should consider the following points when reviewing their organisational structure.

### Supportive organisational design

- How does your current 'chain of command' impact the translation of ideas at the top to action?
- Are employees fairly recognised and rewarded for their achievements?
- Are there opportunities for employee upward or horizontal mobility?
- Does your current organisational structure support the espoused values?

### Effective 'lines of defence' reporting

- Which individuals or groups in your organisation are responsible for each line of defence — identification and management, monitoring and controlling and independent audit and assurance?
- Are these lines able to operate independently?

### Ability to raise issues

- Are there confidential channels for employees to report misconduct or unethical behaviour?
- How are issues or changes communicated internally?

### Accountability

- Are expectations of accountability, ownership and responsibility communicated clearly and applied openly to all employees, irrespective of position?
- Are all individuals within the organisation treated fairly and equally?

- Is the appropriate action undertaken in a transparent manner regarding poor behaviour?

## 3. Capability

Focusing on improving your organisational capability — often referred to as 'organisational competencies' — not only improves overall organisation performance, but can also significantly mitigate organisational risks.

Risk management capability generally focuses on preparedness and responsiveness.

By preparing for various 'worst-case scenarios' — such as fraud, data breaches and cybercrime — organisations can improve their response speed and effectiveness. This is because they can spot the early warning signs in advance, thus reducing the likelihood of the scenario occurring, as well as the severity of the incident.

A sound risk culture improves organisational capability by investing in activities such as risk awareness training, crisis plans, team-based simulations and early detection technologies to ensure an organisation is prepared for the unexpected.

Following are some other factors for consideration to improve organisational risk capability.

### Facilitating a learning organisation

- Is your organisation keeping up to date with relevant industry changes, new technologies, literature and processes?
- Are opportunities for learning and development available at all levels?
- What steps are you taking to create a culture that encourages continual improvements?

### Root-cause analysis and training

- When faced with a problem, are you treating the underlying problem — 'root cause' — or just the symptoms?
- What steps are you taking to prevent the problem occurring again or to detect potential future problems?

### Building resilience and accepting bad news

- What steps is your organisation taking as part of crisis preparedness?
- Have you prepared your leaders and employees to handle setbacks and disappointments constructively?

## 4. Sustainability

While many of the key areas of improvement organisations can adopt to mitigate organisational risk have been covered, it is important for improvements to be sustainable for success in the long term. Many organisations tend to focus on dealing with immediate and short-term risks because their impact and severity is clearly visible. However, it is often the long-term, systemic risks which may not be accounted for that can cause the most irreparable damage.

Therefore, the following factors should be considered when attempting to implement meaningful and sustainable risk management solutions.



### The quote

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**Celebrate 'good' risk behaviours**

- Reward and recognition are key factors in a sustainable risk culture. When it comes to risk management, how is your organisation actively encouraging good behaviours to motivate staff to go above and beyond?

**Consequence management strategy**

- What risk exposures does your organisation have and what is their severity of impact?
- What is your response, relief and recovery and strategic communications strategy?

**Understanding subcultures and ongoing monitoring of cultural changes**

- What culture and subcultures does your organisation currently have and how are you looking to manage or change them from a risk culture perspective?
- How are you monitoring various data points and indicators of culture over time?

**Proactive management of emerging issues**

- What risks exist in your organisation?
- How can you prevent and/or mitigate these risks?

**Meeting the challenge on all levels**

As we enter the post-Royal Commission era, organisations need to be looking at risk-management practices closely, including how these interact with a business's goals and strategies.

Culture has now become a fundamental part of the governance, risk and compliance landscape. It is imperative that organisations utilise appropriate tools to help meet regulatory risk-culture standards, assess where deficiencies lie, and implement and monitor risk culture. **FS**