Rethinking Risk Culture in a Post-pandemic Era

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Abstract. The COVID-19 pandemic has taught us the need to rethink towards future risk and possibly how to mitigate or deal with such risk. To do this, the right risk culture needs to be embedded into the organization’s setting. In recent times, there has been an increase in regulatory pressure for effective risk management governance and strategy. An inspiring risk governance and strategy will never be realized without the backing of a strong risk culture. This paper discusses risk culture within an organization and rethinking risk culture in a post-pandemic era.

Keywords: Risk Culture, Risk Management, Regulator, Strategy, Banks.

INTRODUCTION

Risk management until the banking sector crisis of 2016/17 in Ghana was perhaps not considered a critical and proactive role but rather a compliance role. Poor risk management practice was a fundamental issue associated with Banks whose licenses were revoked by Bank of Ghana during the financial sector clean up. Post banking sector clean-up, risk management has thus become an emerging area within the financial sector. The recent covid-19 pandemic has again highlighted the important role of risk management. This was evident in the absence of Business Continuity Plans and even where it existed, they were mere documents prepared for compliance purposes.

Generally, it is the Board of Directors that exercises oversight of the risk governance and culture. The Board defines the desired culture but it is the up to the management and other individuals within the organization to carry out the desired culture. Culture is inherent and thus introducing new norms and ideas may require re-engineering and reinforcement. Peter Drucker simply put it as “culture eats strategy for breakfast”. This is to say an inspiring vision and excellent strategy can never be achieved without the right culture to support it.

Risk culture is defined by the Institute of Risk Management (IRM) as “the values, beliefs, knowledge, attitudes and understanding about risk shared by a group of people with a common purpose”. Put differently, risk culture can be described as a system of values, norms, mindsets and actions that exist within the organization to shape the daily risk decisions.

BACKGROUND

Organizational culture can be described as a form of shared values and beliefs that offer individuals with the norms for behaviors in the organization (Rohit and Webster, 1989: Wong et al., 2020). Risk culture is an element of the whole organizational culture. Risk culture is an indispensable underpinning of risk management framework (Rossiter, 2001). Wong et al. (2020) concluded in their research that the risk culture specifically risk policy and risk appetite; key risk indicators; accountability; incentives; risk language and internal relationships are estimated to have substantial and undeviating effects on Enterprise Risk Management.

Uncertainties are inherent in the day-to-day activities of all organizations. Risk management is a strategic activity and is not only limited to algorithms, checklists and programs (Anderson, 2006). The cultural dimension of risk management has been consistently emphasized by a number of researchers (Douglas, 1992: Corvellec, 2009). In recent times, risk management has been progressively highlighted as a spectacle of good corporate governance (Drew and Kendrick, 2005: Corvellec, 2009). Almost all boards of organizations within the financial services industry have a subcommittee on risk. Risk management can be portrayed by some overt or covert management tactics that does not refer to risk, but nonetheless tackles it in an efficient manner.

Regular interactions, formal and informal, amongst risk and business functions are commonly established to be critical in the financial services industry
Regulators and stakeholders have unquestionably been the drivers of risk culture change programs. Individual behaviors is a function of risk culture within an organization. In the research of Ashby et al. (2012), they posit that their observations indicate that risk culture is not just an industrywide challenge or one restricted to the global financial crisis, but also emphasized a variety of micro-level cultural ‘weaknesses’ within particular financial organizations. It is paramount to recognize that a strong risk culture does not necessarily beget the achievement of corporate goals (Sinclair, 1993), moreover under certain situations strong risk culture can result in strategic myopia within the organization, making it less susceptible to environmental modifications.

Culture cannot be measure, weighed or touched (Hindson, 2010), although not quantifiable but play a pivotal role in achieving organizational strategy. There are about four risk culture models, these are the Cultural Theory of Risk (Douglas and Wildavsky, 1982), Double S Model (Sociability or Solidarity) (Goffee and Jones, 1998), IRM Risk Culture Model (Hindson, 2010) and Organizational Culture Profiling (Spony, 2003). Whereas the Cultural Theory of Risk looks at the conduct of people within the organization, the Double S model evaluates the culture of the organization as a group. IRM Culture Model recommends eight ‘aspects’, categorized into four ‘themes’, that need to exist to guarantee the right risk culture is aligned to the organization’s vision whiles Organizational Culture Profiling supports individuals and organizations to control preferences for varying attitudes grounded on the understanding of ‘work-values’.

**DISCUSSION**

Forming and maintaining a strong risk culture is imperative for all financial institutions. Risk culture awareness is an essential component of ERM program. The principal cause to poor risk management practice within the financial sector is a weak risk culture. Stakeholders and Regulators expect organizations to have a strong risk culture at least to ensure financial soundness and going concern.

**Assessing Risk Culture**

Assessing the risk culture within an organization involves subjective and qualitative matrices within the entire enterprise risk framework. Risk culture persistently progresses through the stages of ERM maturity. Assessing risk culture involves identification of prevailing conditions, behaviors and practices within the organization that may directly or indirectly impact on risk related activities arising in the future.

There is no particular technique for evaluating risk culture, however, there are few tools that can be adopted to infer and track the level of awareness towards risk within an organization. These may include surveys, interviews within the organization, group discussions, feedbacks, review of operational processes and training. It is exigent to measure an organizations risk culture in order to know the current level, manage it and improve upon it to achieve the desired culture.

The risk culture framework identifies;

![Figure 1. IRM Risk Culture Framework (Institute of Risk Management (2012), p. 16).](image)

i. Personal predisposition to risk – the level to which people are sensitive towards risk, may be resilient, cautious, pessimistic or optimistic.

ii. Personal ethics – the set of personal moral values individuals bring into the organization.

iii. Behaviors – the result of personal predisposition and personal ethics depicted in a person actions.

iv. Organizational culture – the way of life proscribed by the core values and desired attitudes of the organization.

**Benefits of a Strong Risk Culture**

A strong risk culture ensures a more effective risk management. It helps to mitigate exposures that may have far-reaching consequences. In an organization where staff risk awareness culture levels are high, there are low potential operational risk incidents, minimal fraudulent occurrences and also enhances productivity.

Furthermore, a strong risk culture improves risk based decision making throughout the organization. A critical component of any risk governance framework is to ensure that the information provided to board and management to make risk and business decisions is accurate. With the right attitudes and values management and staff within the organization have a higher proclivity to make better decisions.

Again, confidence levels of stakeholders, investors and regulators is improved when a strong risk culture exist within the organization. The culture that enhances value for shareholders, regulators and customers are those effective for managing risks. Perceptions by stakeholders
have an impact on organizational goodwill. Thus, a robust risk management within the organization attracts investments and to a larger extent impact on the credit rating of the organization.

Lastly, compliance with regulatory requirements are improved with a strong risk culture. The high levels of regulatory scrutiny within the financial services sector requires organizations to have a resilient risk management system. The low tolerance of misconduct can be seen in the stiffer sanctions meted out to some banks and capital market players in the banking sector and capital market clean up. Thus, a strong risk culture helps to avert actions that impair corporate goodwill.

Practical Steps to Successful Risk Culture

The essential themes of effective risk culture in the eyes of some Chief Risk Officers and staff within the financial services sector are tone from the top and tune from the middle; open and effective communication in a safe environment; and awareness, understanding and ownership of risk at all levels (McGing and Brown, 2014).

As stated earlier, it is the Board of Directors that has oversight responsibility over the risk governance and culture of any organization. Thus, it is compelling on them to set the desired risk culture tone from their level and flowing from that management also set the tune to be followed by staff within the organization. Culture curated by the overriding influence of management is a signal of “managerialism” (Parker, 2002), creating a dictatorship environment.

It is critical to involve staff in setting and journeying to the desired risk culture. An open and fair internal communication between management and staff is required to achieve a successful risk culture. These communications must happen within a safe environment devoid of acrimony. Again, constantly training and educating staff on the desired risk culture is necessary.

Finally, it is essential for both management and staff to be sentient of emerging risks, identify, understand and own risks within their various day-to-day functional activities. This raises the level of risk awareness within the organization.

CONCLUSION

Risk Management has evolved and has now become a critical role in the eyes of stakeholders especially in the post banking crisis and Covid-19 pandemic era. It has moved from a regulator – compliance era to a pro-active and essential function within the financial services sector. The foundation of a robust ERM framework is a strong risk culture to carry out activities in order to achieve the set vision and strategies of the organization.

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