

Measuring and Improving Risk Culture

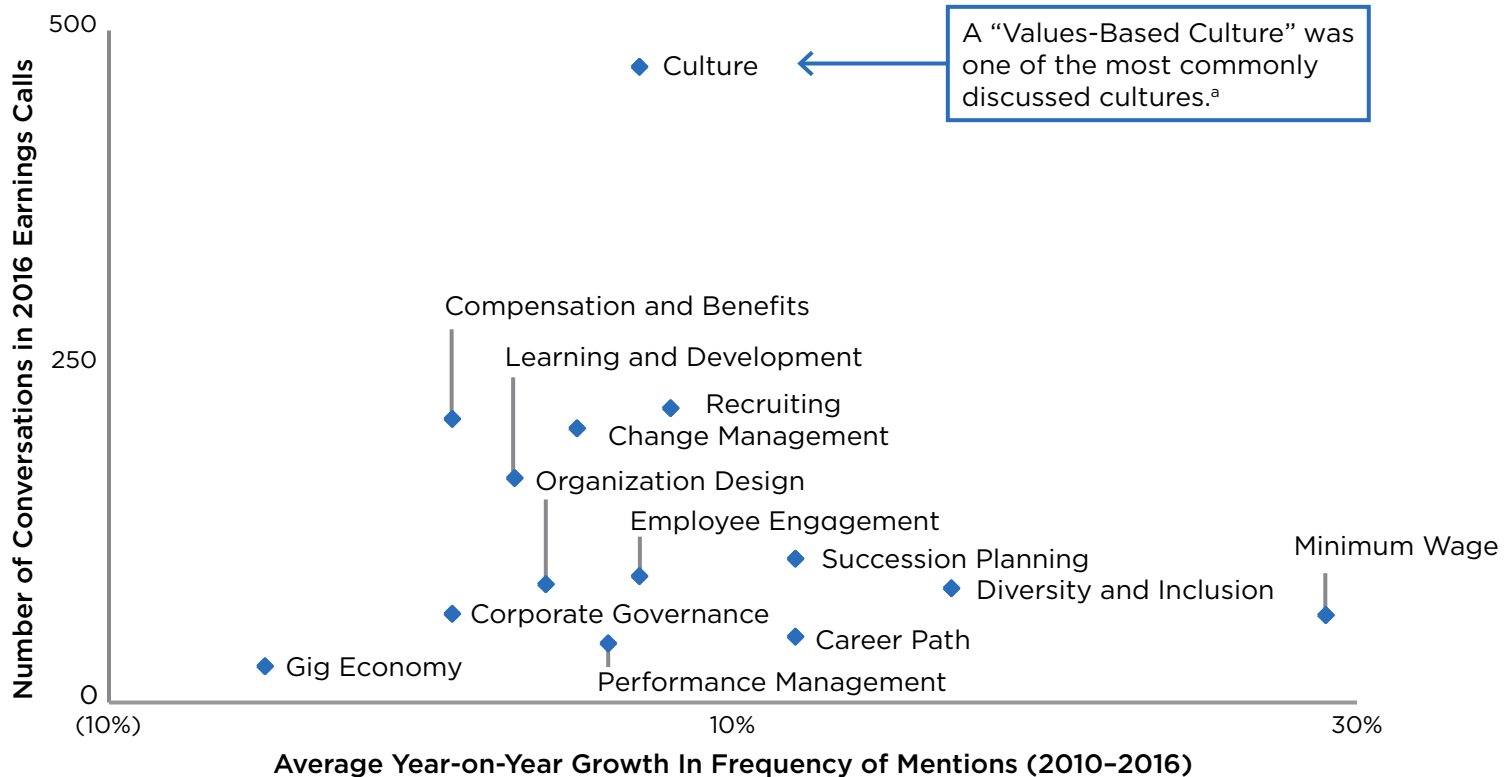
Webinar Summary

ROADMAP FOR THE PRESENTATION



CULTURAL PERFORMANCE BECOMING MORE PUBLIC

Frequency of Talent-Related Topics Discussed During Earnings Calls
Percentage of Earnings Calls, 2016



A "Values-Based Culture" was one of the most commonly discussed cultures.^a

Source: CEB analysis; AlphaSense (accessed January 2017), <https://research.alpha-sense.com>.

Note: Searches were limited to the use of the terms in a talent management context and included synonyms and synonymous phrases of the terms. Search parameters were limited to earnings calls released from 1 January 2010 to 31 December 2016 from publicly listed companies in the S&P Global 1200 and S&P MidCap 400 indices as of 31 December 2016.

^a Other cultures discussed include: Culture of Innovation, Culture of Safety, Culture of Collaboration, etc.

REGULATORS ARE PRESSING THE CASE

“A financial institution’s **risk culture** plays an important role in influencing the actions and decisions taken by individuals within the institution and in shaping the institution’s attitude toward its stakeholders, including its supervisors.”

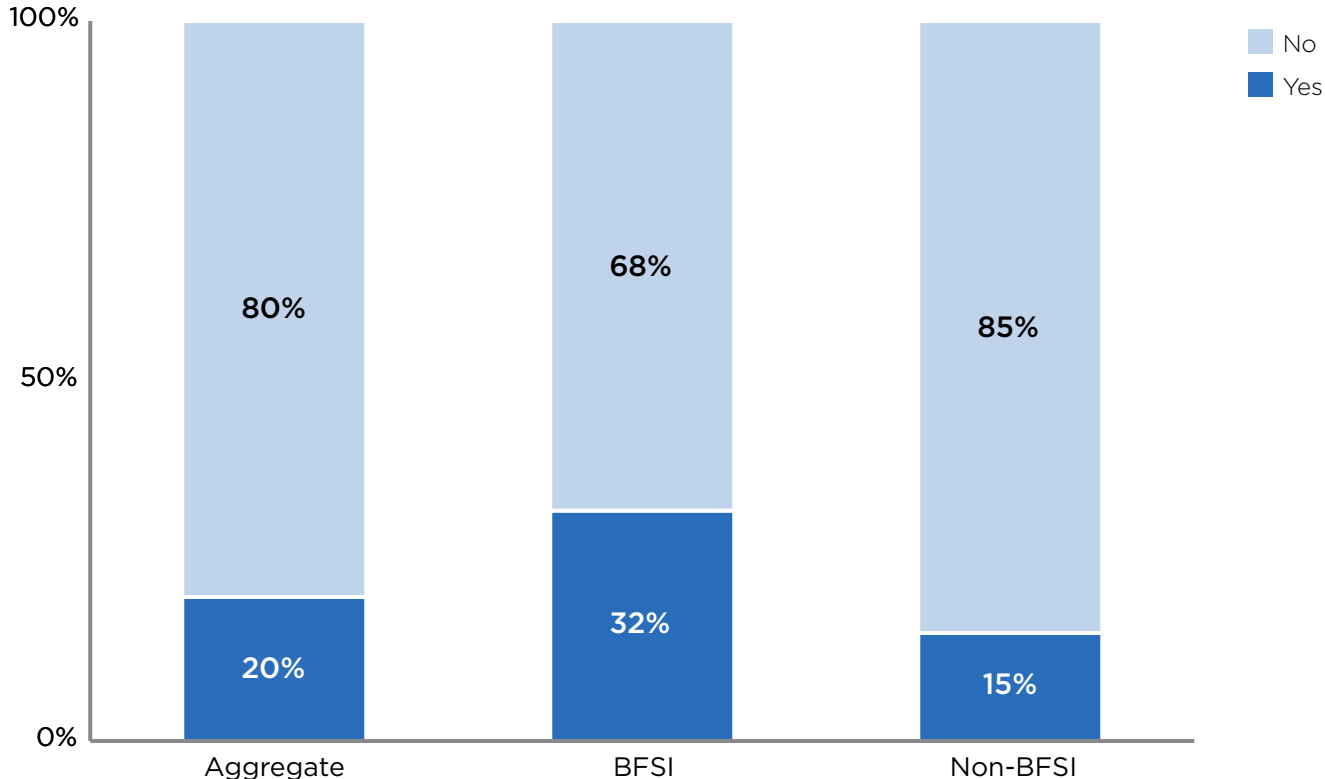
Financial Stability Board, Guidance on Supervisory Interaction with Financial Institutions on Risk Culture: A Framework for Assessing Risk Culture, April 2014

“The Board of an APRA-regulated institution...must ensure that... it forms a view of the **risk culture** in the institution, and the extent to which that culture supports the ability of the institution to operate consistently within its risk appetite, identifies any desirable changes to the risk culture, and ensures the institution takes steps to address those change.”

Australian Prudential Regulatory Authority (APRA),
Information Paper: Risk Culture, October 2016

FEW ARE FORMALLY MEASURING RISK CULTURE

Existence of Formal Risk Culture Measurement
Percentage of Organizations

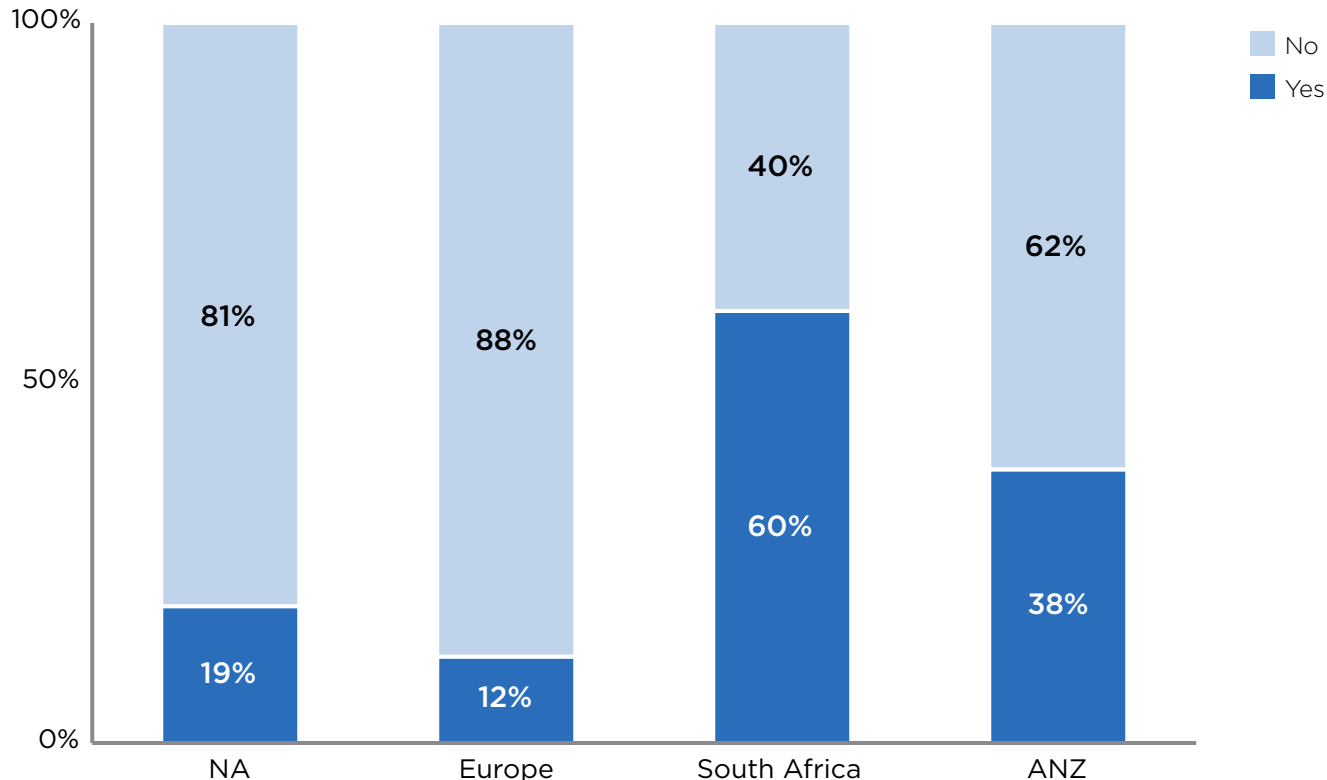


$n = 151$ (aggregate); 47 (BFSI); 104 (non-BFSI).

Source: CEB 2017 State of the ERM Function Survey.

SOME GEOGRAPHIES ARE AHEAD OF OTHERS

Existence of Formal Risk Culture Measurement
Percentage of Organizations by Geography

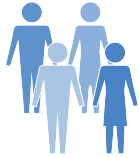


n = 102 (NA); 26 (Europe); 5 (South Africa); 13 (ANZ).

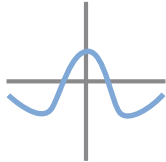
Source: CEB 2017 State of the ERM Function Survey.

IMPORTANT THINGS TO REMEMBER

Key Properties of Risk Culture



Risk culture is **shared**.



Risk culture is **continuously evolving**.

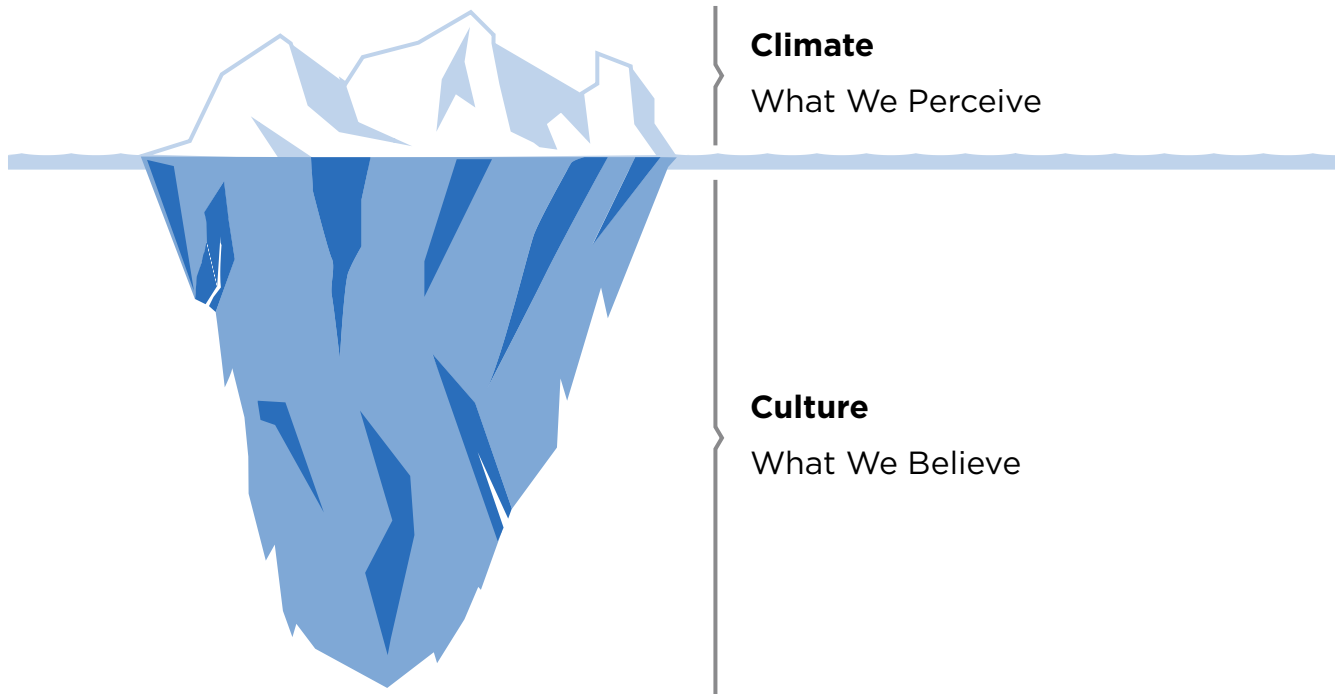


Risk culture is a **local construct**.

Source: CEB analysis.

RISK CULTURE VERSUS RISK CLIMATE

The Iceberg Analogy for Risk Climate and Culture
Illustrative

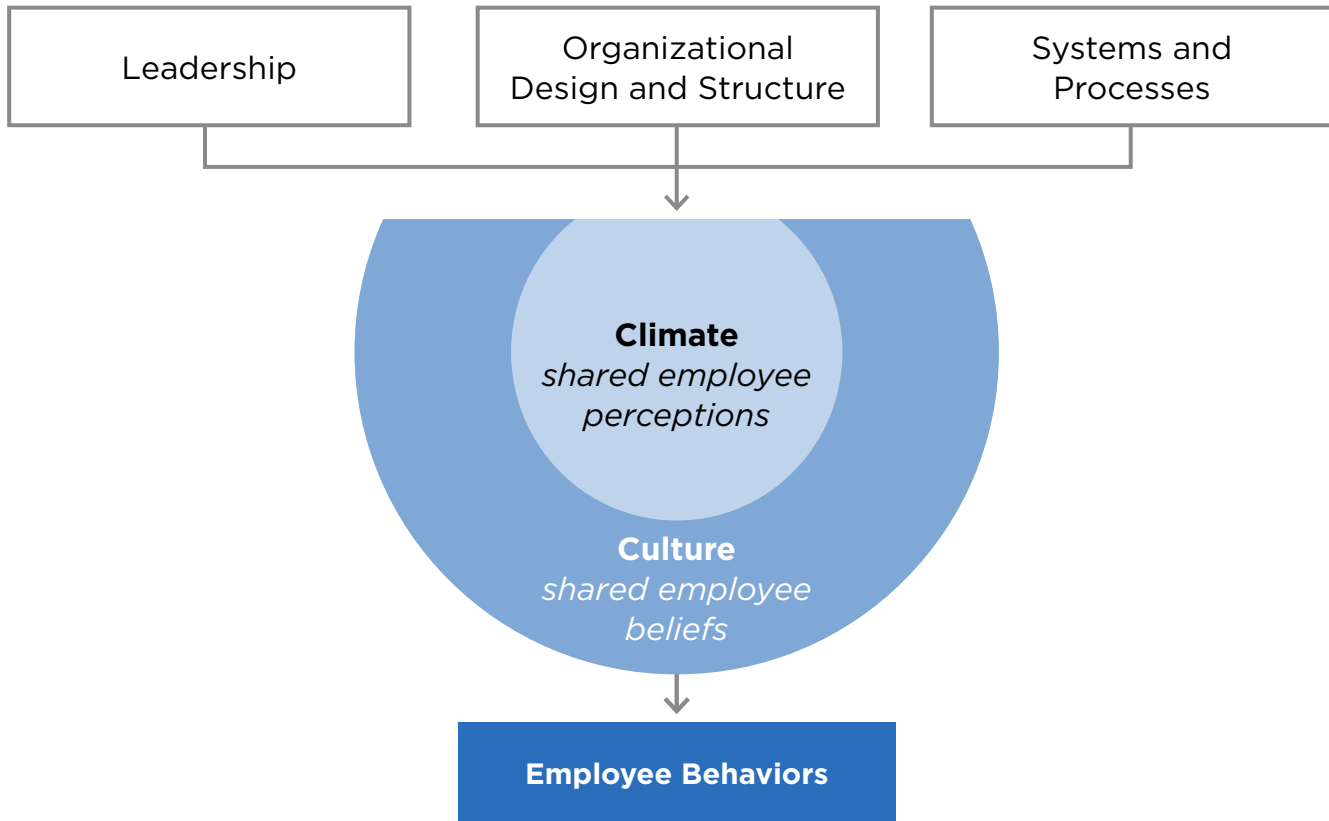


Source: CEB analysis.

WHAT DOES IT HAVE TO DO WITH BEHAVIOR?

Causal Model of Risk Climate and Culture

Relations Between Organizational Characteristics, Climate, Culture, and Behaviors



Source: CEB analysis.

WHY DOES THE DISTINCTION MATTER?

Differences Between Culture and Climate

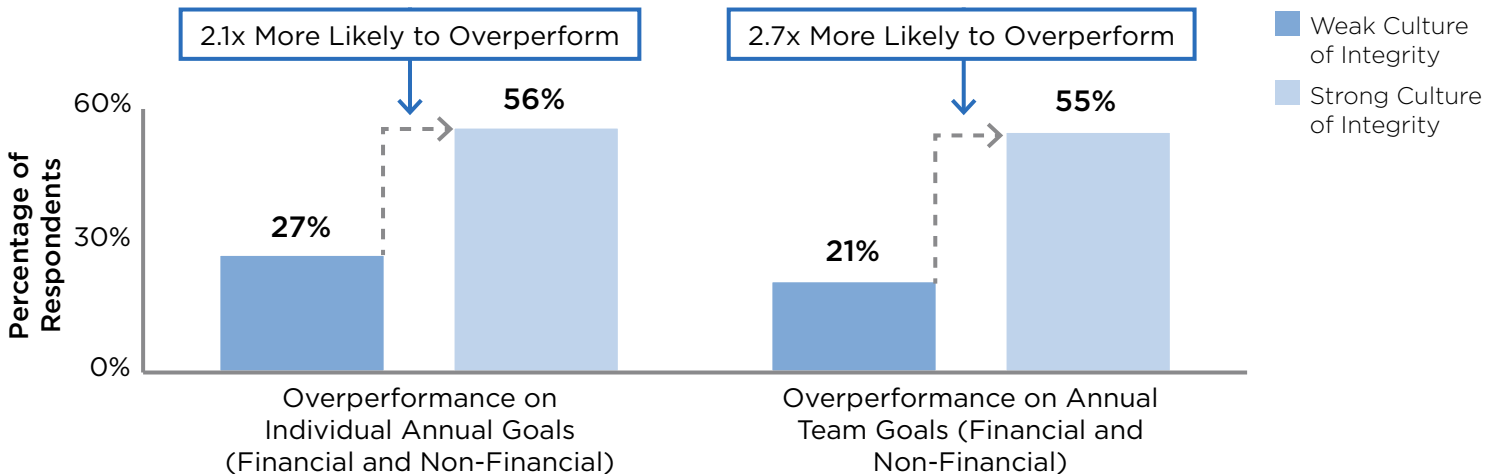
Why Companies Should Focus on Climate Versus Culture

	Risk Culture (Shared Values and Beliefs)	Risk Climate (Shared Perceptions)
Rate of Evolution	Slow	Fast
Ability to Observe	Low	High
Ability to Measure	Low	High
Ability to Influence	Low	High

Source: CEB analysis.

THE VALUE OF A STRONG CULTURE

Likelihood of Employee Overperformance in Strong Versus Weak Cultures
Percentage of Respondents



$n = 5,025$.

Source: CEB Compliance and Ethics 2017 Global Culture Assessment.

The Impact of a Strong Culture of Integrity on Risk Management and Employee Outcomes

Employees in strong cultures of integrity are:

- **90%** less likely to observe misconduct.
- **1.5x** more likely to report observed misconduct.
- **2.1x** more likely to be engaged with their job and company.
- **2.4x** more likely to exhibit higher levels of discretionary effort

$n = 1,941,735$ (2008–2016); 5,025 (2017).

Source: CEB RiskClarity 2008–2016 Benchmarks; CEB Compliance and Ethics 2017 Global Culture Assessment.

A QUICK RECAP

What We Have Learned So Far

- 1** Risk culture is the deeply held values and beliefs about risk management shared by employees. It is difficult to observe, measure, and influence.

- 2** Risk climate is the shared employee perceptions about risk management. It is relatively easier to observe, measure, and influence.

- 3** Climate and culture ultimately affect employee behaviors, which is what organizations have a vested interest in influencing.

- 4** Employees in organizations with strong positive cultures perform better than their peers at organizations with weak cultures.

Source: CEB analysis.

ROADMAP FOR THE PRESENTATION

The Fundamentals
of Risk Culture
(and Climate)



**How to Measure
Your Risk Climate**



How to Influence
Your Risk Climate

CRAFT A SURVEY QUESTIONNAIRE

Risk Culture Questionnaire

Illustrative

The risk and compliance group considers the percentage of “agree” and “strongly agree” answers as the quantitative score for the risk and compliance culture.

Key Behaviors	Survey Statements	Strongly Agree	Agree	Slightly Agree	Disagree	Strongly Disagree
1. Accountability	Managers around here effectively address issues with employees who perform poorly.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Encouragement of the Right Environment	▪ I can try new things here even if they lead to occasional mistakes.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	▪ My direct manager is receptive and open to my ideas about ways to improve the business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Risk Prevention	In my team, we identify and plan to avoid potential issues or problems in our work. ^a	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Risk Detection	It is safe to speak up in my area and challenge the way things are done.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Risk Recovery	We respond quickly to minimize operational problems when they are identified. ^a	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Continuous Improvement	In my team, we reflect on our learnings and use them to improve the way we work. ^a	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Source: IAG; CEB analysis.

^a Questions designed specifically by IAG. All others are designed by Hewitt Associates Pty Ltd., which assisted with the employee survey.

HOW TO GET MAXIMUM VALUE FROM YOUR SURVEY

Climate Survey Logistics

1. Ensure a representative sample:

- Business units,
- Levels in the hierarchy,
- Geographical divisions, and
- Departmental/functional roles.

2. Bake in enough time: Depending on:

- The scope of the exercise
- Logistical complexity

3. Rinse and repeat: Repeat the survey every few years to gauge the progress made.

Source: CEB analysis.

DIG IN DEEPER ON SURVEY RESPONSES

Follow-Up Workshops

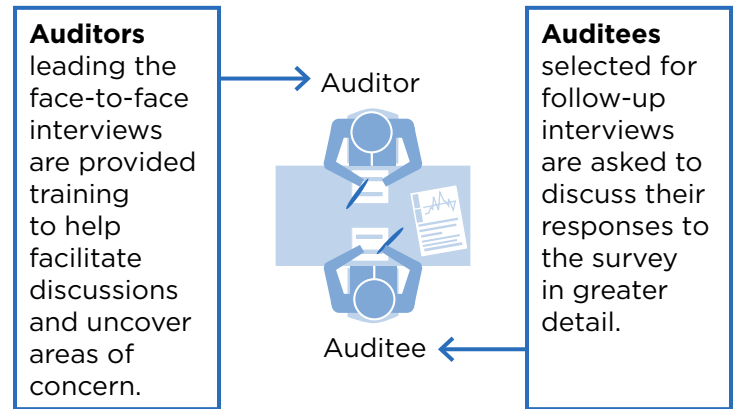
Illustrative



Source: Bank of Queensland; CEB analysis.

Follow-Up Interviews

Illustrative



Source: Nomura; CEB analysis.

MEASURE THE OUTCOME (BEHAVIORS)

Sample Metrics to Measure Risk Management Behaviors

Partial List

Recorded deviations from stated risk appetite
Recorded instances of policy non-compliance
Risk management training completion rates
Percentage of high-severity issues self-identified by the business
Percentage of high-severity issues identified within X days of the risk event
Percentage of high-severity issues open after Y days of the risk event
Percentage of high-severity issues that we reopened (failed validation)
Number of unresolved whistle blower complaints
Number of staff terminated based on misconduct

Source: CEB analysis.

A QUICK RECAP

What We Have Learned So Far

- 1** The employee base must be the source of climate measurement.

- 2** Surveys are the easiest way to collect a large and representative sample.

- 3** Interviews and workshops can be useful follow-up mechanisms to dig deeper into the survey results.

Source: CEB analysis.

ROADMAP FOR THE PRESENTATION

The Fundamentals
of Risk Culture
(and Climate)



How to Measure
Your Risk Climate

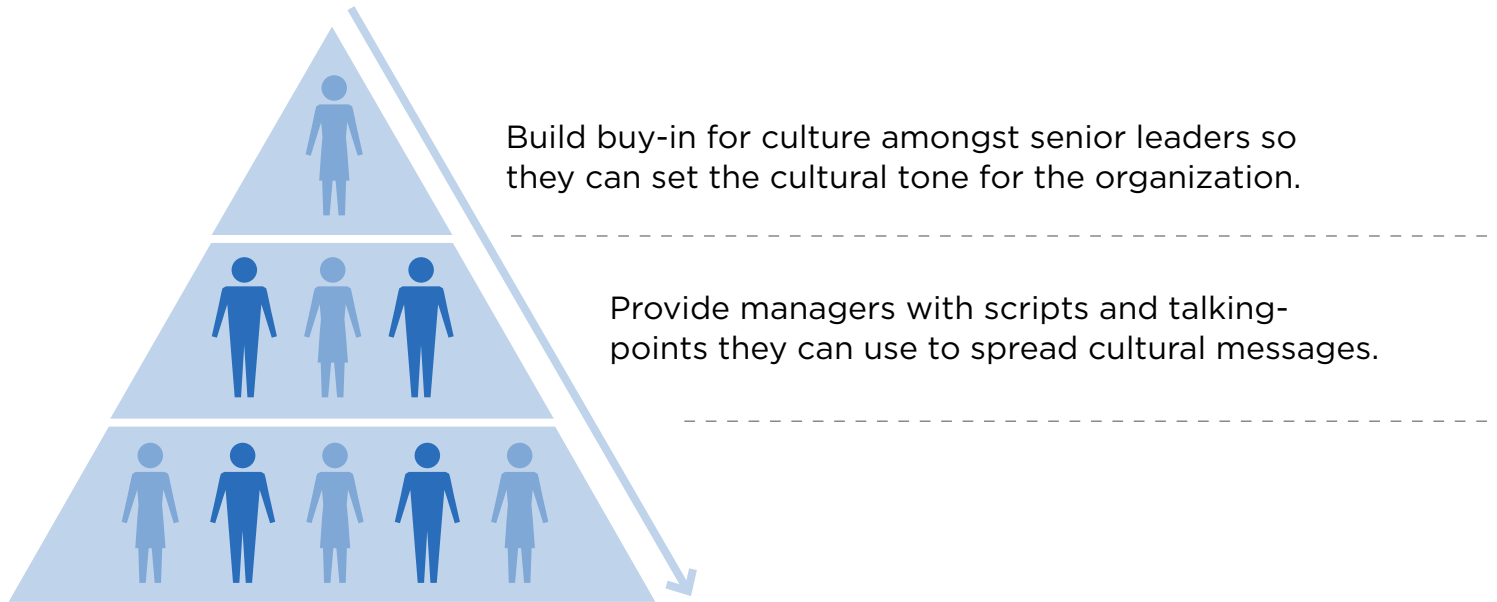


**How to Influence
Your Risk Climate**

SET THE RIGHT TONE AT THE TOP

Trickle-Down Effect of Leadership Messages

Illustrative

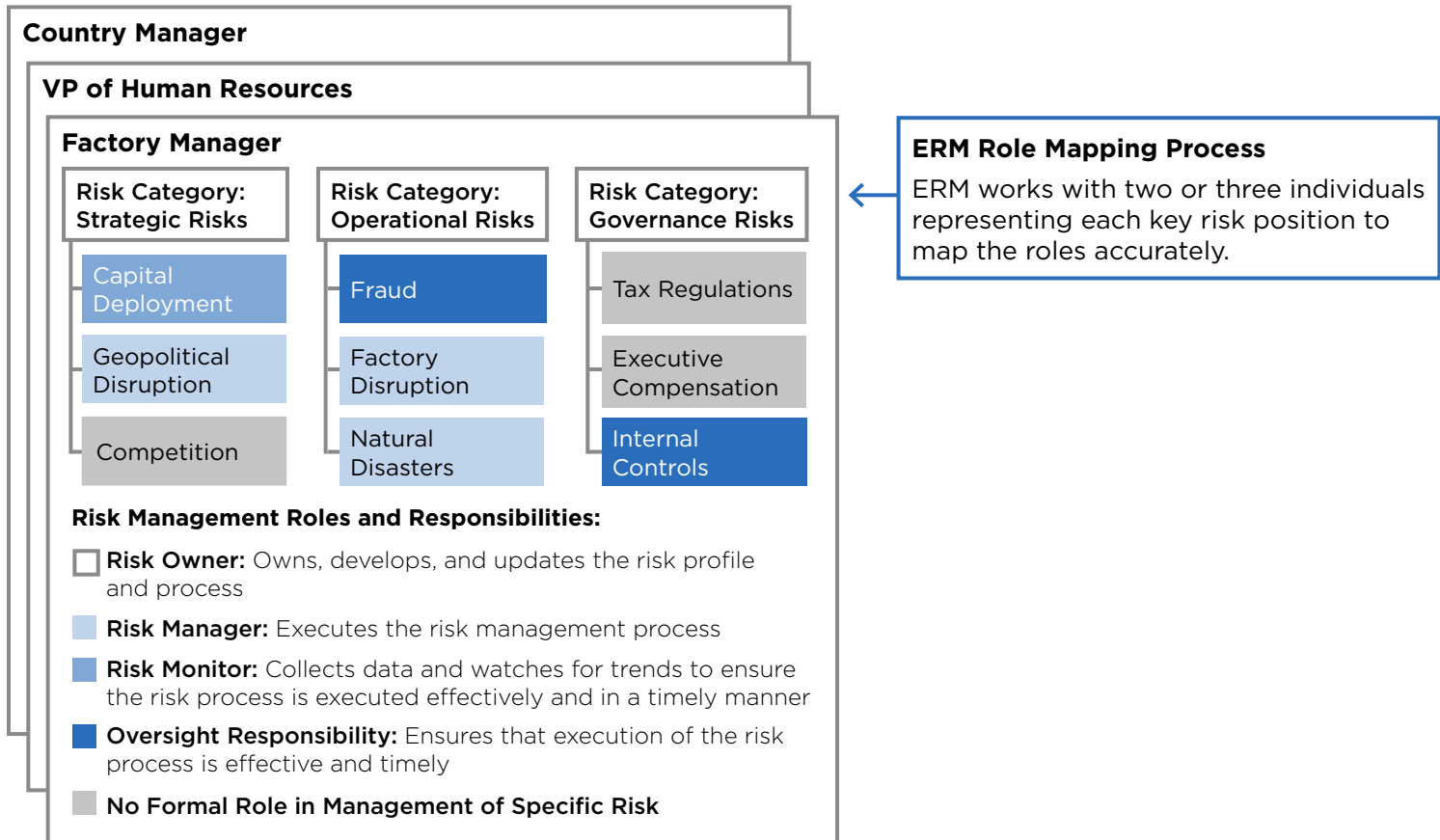


Source: CEB analysis.

CLARIFY ROLES AND RESPONSIBILITIES

Risk Management Roles Mapped to Key Risk Positions

Illustrative



Source: Deere & Company; CEB analysis.

ESTABLISH ACCOUNTABILITY MECHANISMS

Manager Performance Review Template

Illustrative

Managerial Performance Review		
Manager Name: _____ Manager Number: _____ Date of Appraisal: _____ Position Grade: _____ Risk Culture Score: _____ Engagement Score: _____		
Individual Scorecard Results	Measurement Method	Results
Achievement Against Financial and Operational Targets <ul style="list-style-type: none"> Meeting established performance targets Meeting personal performance goals 	Biannual performance review	Scale 1 = Exceeds Expectations 2 = Meets Expectations 3 = Improvement Required
360-Degree Review <ul style="list-style-type: none"> Functional knowledge Values-based leadership (including effective team building and change management) 	Evaluation by managers, peers, and staff	Scale 1 = Exceeds Expectations 2 = Meets Expectations 3 = Improvement Required
Engagement Score (Measure of Emotional and Intellectual Commitment) <ul style="list-style-type: none"> Desire to reach company goals Level of interaction with employees 	HR survey results	Scale Strongly Agree–Strongly Disagree
Risk Culture Score <ul style="list-style-type: none"> Leading by example and encouraging people to scan for risks Speaking up and reporting risks or issues that are “not right” and welcoming reports of risks or misconduct Ensuring lessons learned from risk events are used to manage risk better in the future 	HR survey results	Scale Strongly Agree–Strongly Disagree
Proactive Behavior Score <ul style="list-style-type: none"> Consideration of risk in decision making Responsiveness in resolving problems 	Performance appraisals, coaching sessions, and critical incident analysis	Scale Proactive–Unaware

Source: CEB analysis.

MAXIMIZE LEARNING FROM FAILURE

Overview of Tata Sons' Dare-to-Try Award



1. Entries for Leading-Edge Award Category

2. Entries for Promising Innovation Award Category

3. Entries for Dare-to-Try Award Category

The big picture may seem daunting when you begin the journey toward your goals. You may find roadblocks on your way, but as you keep taking each step, the distance only shortens.

The Dare-to-Try awards are given to brave innovators like you who go that extra mile—those who may fail but do not fail to try.

Internal Evaluators:

- Head BU1
- CFO

External Evaluators:

- Industry Experts
- Chief Underwriter, Bank A

Hurry!
Deadline is
31 Dec. 2011

You can now send your innovation that has not been successful yet carries potential!

Here's a chance to teach your peers from the Tata Sons what you learned from your failure!

1. Positive Positioning

Builds a positive perception of failures and ensures staff perceive rewards for failures and successful ideas are equivalent

Outcome: Portrays leaders as innovation champions

2. High-Visibility Recognition

Announced during Tata's annual global innovation conference and evaluated by senior leadership and industry stalwarts

Outcome: Shows value in participation

3. Peer Participation

Failed idea submissions are encouraged from multiple businesses.

Outcome: Increases comfort in sharing failures

Source: Tata Group; CEB analysis.

¹ Tata Innovista is a group-wide program held annually to encourage, recognize, and showcase outstanding innovations done by Tata companies across the globe.



RAISE EMPLOYEE'S RISK AWARENESS

Mechanisms to Improve Employee Awareness

Partial List

Newsletters



Source: Regions Financial.

Roadshows



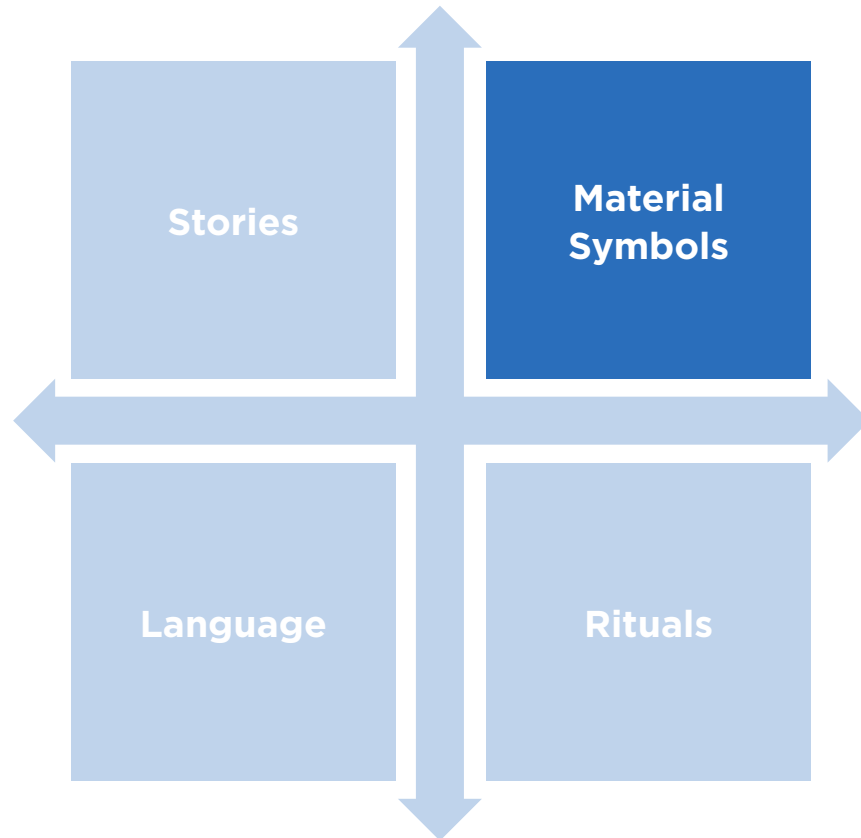
Online Training



Source: Syngenta.

REINFORCE THE MESSAGES

Mechanisms to Reinforce Key Cultural Messages



Source: CEB analysis.

KEY TAKEAWAYS

What We Learned Today

- 1** Risk climate and culture ultimately affect employee behaviors.

- 2** Employee surveys are a great tool to measure the organization's risk climate.

- 3** Organizations need a multi-pronged approach to change employee perceptions, beliefs, and behaviors.

Source: CEB analysis.