



Developing a Positive Risk Culture

Audience

This information sheet is intended to assist Commonwealth officials at the Specialist and Executive levels understand:

- how culture is developed and influenced,
- assessing an entity's current risk culture state,
- determining a target culture state, and
- implementing a risk culture change program

At a glance

A positive risk culture is one where staff at every level appropriately manage risk as an intrinsic part of their day-to-day work. Such a culture supports an open discussion about uncertainties and opportunities, encourages staff to express concerns, and maintains processes to elevate concerns to appropriate levels.

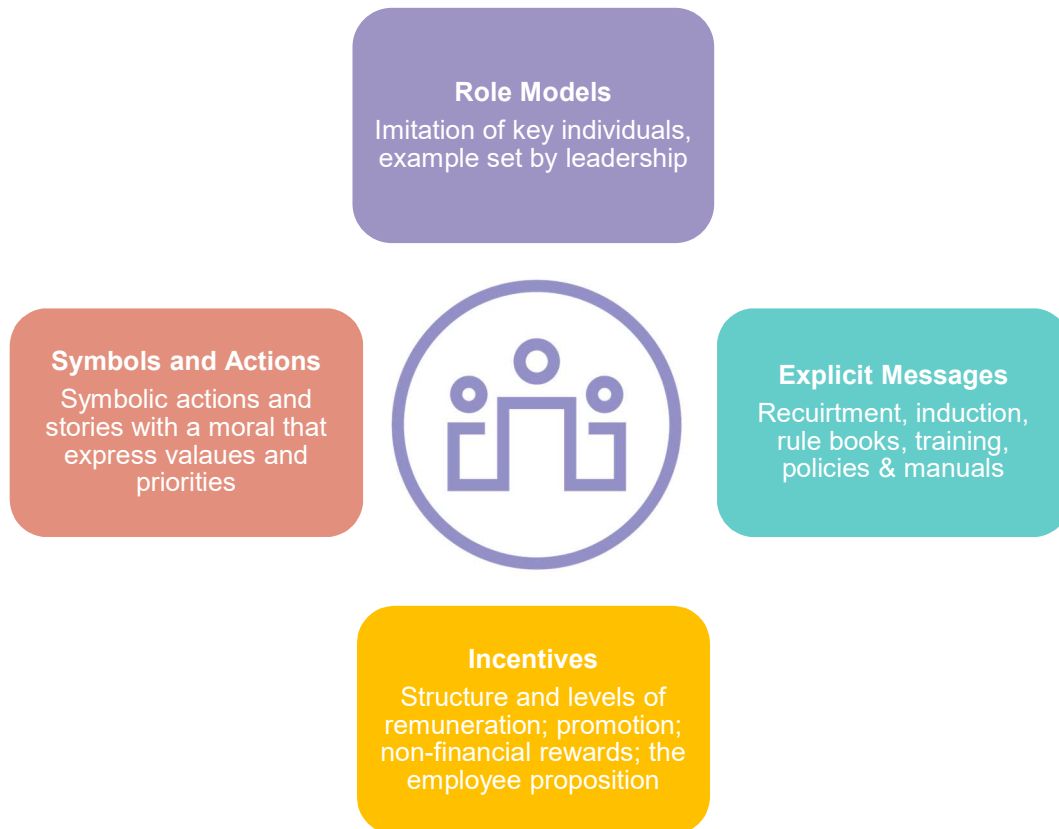
Understanding how culture is influenced and developed

Any entities culture is complex and will be driven by a number of factors. Before attempting to change an entity's culture it is first useful to understand the ways in which people are influenced. The four key channels through which people are influenced and pick up cultural messages are:

1. **Role Models.** The risk management behaviours that role models display will be influential on others, including both positive and negative behaviours. In doing this, they instil values that over time become the core beliefs about acceptable behaviour in an entity.
2. **Explicit messages.** Explicit messages incorporated in entity policies and procedures set out expectations and influence behaviour. During their careers, officials are provided with many instructions and guidelines from their entity. These are influential in determining how officials view and manage risk.

The first few weeks and months of an official joining an entity are particularly crucial as this is when they can be influenced the most. During recruitment and induction procedures you are able to clearly articulate the kind of entity they are joining, what values are important to the

entity and what behaviour is expected of them. It is also important to consider who conveys these messages and how they are delivered.



3. **Incentives.** The manner in which officials are rewarded and recognised for displaying good risk management behaviours will indicate how risk management is valued. Officials will be unlikely to take appropriate risks if there is no incentive to do so or where risk taking is punished.
4. **Symbols and actions.** The daily actions of senior officials are noticed by staff and often mirrored. Think about whether senior officials manage risk in the manner in which they would like their staff to. Small, positive actions by senior officials can take on much wider symbolic importance and can help spread values across the entity.

Understanding your current risk culture state

The first step in developing a positive risk culture is understanding your entity's current risk culture and how well it supports the entity's approach to managing risk. One way in which this can be done is to break down risk culture into more measurable attributes, some of which are illustrated below. Investigating these attributes provide a baseline against which any attempts to shape the risk culture of an entity can be measured.

Appendix A to this information sheet briefly explains each of these indicators and provides examples of corresponding attributes of a positive risk culture which can be used to derive goals for a cultural change programme.



One way to measure the current status of each of these indicators is to undertake a survey. This not only provides information on the current risk culture but also provides a benchmark which can be used to measure progress over time.

An analysis of the survey results can also provide a detailed understanding of how staff think and act in relation to risk management. This can assist in identifying the root causes of any undesirable attitudes and behaviour.

Some issues to consider when developing a risk culture survey include:

- Do role models display the right behaviours?
- Are we communicating consistent and useful risk-related messages?
- Are people comfortable discussing risk, or are they afraid to raise difficult issues? How quickly do they raise issues?
- Do our reward and recognition programmes reinforce a positive risk culture?
- Is the effective management of risk an integral part of the entity's performance?
- Are people clear on the risks they are accountable for?
- Do people have the right skills to manage risk effectively?
- Does the time required to complete risk management processes exceed the value they add?
- Do people sometimes need to bend the rules to get things done?

Another method to consider is supplementing any questionnaires by interviewing officials in the entity. This can assist in validating the results of the survey and uncovering any additional issues. Interviewing senior officials can be particularly useful in determining the current and desired risk culture.

Some questions to consider when interviewing senior officials include:

- Who has primary accountability for the entity's risk culture – are they sufficiently senior, knowledgeable and engaged?
- Do our governance systems and culture support the implementation of our strategy?
- What values are – and are not – expressed in our culture?
- Are we truly practicing good governance and adhering to our values?
- How can we best align our goals and our risk culture with our corporate plan?
- Where we see misalignment between our goals and our culture, what is the cause?
- How can we drive positive values throughout our culture?
- Have we developed a common language around risk that defines risk-related terms and measures and promotes risk awareness in all activities and at all levels?
- What tools are we using to gauge our risk governance effectiveness, and with what results?

Determining your target risk culture state

Once the entity's current risk culture is understood, it is important to determine your target risk culture. A useful technique to determine this is to use a risk management maturity model such as the maturity model adopted in Comcover's Risk Management Benchmarking Program. This allows you to plot your current maturity and identify what level of risk management maturity is most appropriate for the entity. This can also allow you to target specific areas of the framework that need to be improved.

As with any cultural change programme, it is important to determine what changes are most critical, and to target them with practical and focused actions. One particular strategy is to review those areas where the risk management culture is particularly positive to understand how they can be leveraged and replicated in other areas.

Importantly, regardless of what tool you use to measure and influence risk culture it will be most effective if undertaken regularly in a structured and deliberate manner. This will allow for trends from year-to-year to be analysed and make it easier to identify areas for improvement.

Implementing a risk culture change programme in practice

Cultural change will likely require meaningful changes to established ways of operating and will take time. It is rarely possible to successfully change more than five aspects of an entity's culture in a 12 to 18 month period.

Therefore, entities may wish to consider focusing on the few key changes that are most important.

It is important to adopt a targeted, systematic approach to cultural change that focuses on a few key issues at a time. Understand the risk behaviours you want to change most, develop practical strategies to achieve this, and then repeat the process over time.

Improving risk culture is a process that can be separated into three broad stages which are depicted below:



Stage 1: Building awareness of risk culture

The awareness stage involves establishing the basic expectations for managing risk in the entity and defining relevant roles and responsibilities around risk. Clear, consistent and continuous communication from leadership is an important aspect of setting these expectations.

Educate officials about risk either informally or through formal training so that they can meet the entity's expectations for managing risk. It can be useful for training and development programmes to leverage real examples and scenarios as a powerful catalyst to prepare individuals for change.

Stage 2: Changing an entity's culture

Once the desired culture for managing risk has been established and communicated, the next step is to develop and implement practical strategies to achieve this. This is the stage where motivational systems are developed to reward the desired risk behaviours and discourage the wrong behaviours. Page 2 of this information sheet describes the four primary channels through which officials receive indicators about their entity's culture. Entities may wish to consider these channels when developing strategies to change the entity's risk culture.

In designing strategies to change the risk culture, an effective review process can be used to identify the root cause of any behavioural shortcomings or weaknesses. Communications and training alone will not be effective without understanding the underlying drivers of risk attitudes and behaviours. Assessment and communication of lessons learned are an opportunity to enhance the entity's risk culture, and to enact real change for the future.

Where possible, it can be useful to integrate any risk management improvement initiatives with other major change programmes in the entity.

Stage 3: Refining the entity's culture

Entering the third stage, entities will have achieved many of the desired changes to their risk culture. The next step is to begin monitoring cultural performance versus expectations. An ongoing regular programme of risk culture assessment and comparison to prior results provides an objective way to demonstrate the real impact of changes achieved while also identifying any new or emerging areas requiring attention.

Having successfully achieved change in Stage 2, it is important to continue to make considered adjustments of strategies and communications in order to maintain a positive risk culture. Only entities that can demonstrate that they have the ability to adjust and adapt will be able to maintain a positive risk culture when their operating environment changes.

Contact

If you have any questions or feedback in relation to this information sheet please contact Comcover Member Services at comcover@comcover.com.au.

Use of this information sheet

Comcover's series of Risk Management Information Sheets are designed to be used as learning resources and are not mandatory.

It is important that entities develop risk management frameworks and systems that are tailored to the needs of their entity. Entities may choose to adapt some or all of the concepts contained in this information sheet to suit their specific needs or use alternative methodologies.

Appendix A: Examples of risk culture change goals

Influencer	Indicator/Capability	Risk Culture Outcome Sought
Risk Competence	Knowledge. The awareness and understanding that people have about risk management.	The goal is to improve people's knowledge of risk management.
	Skills. The ability that people have to manage risk effectively.	The goal is to improve people's skills in the practical application of risk management.
	Learning. The act, process or experience of gaining new risk management knowledge or skills.	The goal is to achieve a continuous learning culture in which the management of risk within the organisation continuously develops and improves.
	Recruitment & Induction. The identification of new people to join the organisation, and their assimilation into it.	The goal is to ensure that people who are brought into the organisation have the necessary risk management knowledge and skills and the appropriate attitude to risk.
Organisation	Strategy & Objectives. How the organisation's strategic plans, including risk appetite and tolerance, are perceived by the people in the organisation.	The goal is to ensure that people understand and believe that the organisation's risk strategy is aligned with its business strategy.
	Values & Ethics. The individual and organisational beliefs and rules that influence risk management behaviours.	The goal is to ensure that the organisation's belief systems support the risk strategy.
	Policies, Processes & Procedures. How the formal risk management rules and controls are perceived by the people in the organisation.	The goal is to ensure that people willingly adhere to the risk management policies, processes and procedures.
	Risk Governance. How the formal risk management structures are perceived by the people in the organisation.	The goal is to ensure that the organisation's risk management structures are fully understood and properly leveraged by everyone.
Motivation	Performance Management. The system used to measure people's contributions to the entity's risk-related goals.	The goal is to align the performance management system with the risk-related objectives of the entity.
	Incentives. Items that encourage appropriate risk management actions or efforts, such as fear of punishment or expectation of reward.	The goal is to encourage appropriate risk management actions or efforts through appropriate incentive systems.
	Reward & Recognition. Benefits and recognition that are given in recompense for exhibiting the desired risk management behaviours.	The goal is to ensure that the personal reward system is aligned with the risk management objectives of the entity.

	<p>Accountability. The willingness of people to accept responsibility for managing risk, and for their own risk management actions.</p>	<p>The goal is to encourage people to take more personal responsibility for managing risk.</p>
<p>Relationships</p>	<p>Challenge. The willingness of people to challenge others and the responses of those that are being challenged.</p> <p>Management. The risk management behaviours exhibited by the managers in the organisation.</p> <p>Leadership. The risk management behaviours exhibited by the leaders of the organisation.</p> <p>Communication. The top-down risk-related communications and also the risk-related dialogues that take place between people across all levels.</p>	<p>The goal is to create an environment in which challenge is expected.</p> <p>The goal is to have managers role modelling and encouraging the desired risk management behaviours.</p> <p>The goal is to have leaders role modelling and encouraging the desired risk management behaviours.</p> <p>The goal is to have frequent, open and honest communications occurring throughout the organisation.</p>