



Risk Culture and Tone at the Top

- ▶ Erich Schumann
- ▶ Global Atlantic Partners LLC
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No Risk No Reward

- ▶ To obtain significant success or gain desirable outcomes we must be willing to embrace uncertainty and venture outside the comfort zone
- ▶ Playing it safe and avoid all risks will lead to stagnant existence of your business
- ▶ On the other hand, taking risks without understanding will lead to a disaster (as we have seen in many cases)
- ▶ Good risk management opens opportunities and potential rewards, it's not done because of regulations but it's prudent management
- ▶ It's not a choice, it's a need for executives and for all employees
- ▶ Building risk culture and setting the tone is essential



Key Elements of Good Risk Management Culture

- ▶ A distinct and consistent tone from the top from the board and senior management in respect of risk taking and avoidance (and also consideration of tone at all levels)
- ▶ A commitment to ethical principles, reflected in a concern with the ethical profile of individuals and the application of ethics and the consideration of wider stakeholder positions in decision making
- ▶ A common acceptance through the organization of the importance of continuous management of risk, including clear accountability for and ownership of specific risks and risk areas
- ▶ Transparent and timely risk information flowing up and down the organization with bad news rapidly communicated without fear of blame



Key Elements of Good Risk Management Culture

- ▶ Encouragement of risk event reporting and whistle blowing, actively seeking to learn from mistakes and near misses
- ▶ No process or activity too large or too complex or too obscure for the risks to be readily understood
- ▶ Appropriate risk-taking behaviors rewarded and encouraged, and inappropriate behaviors challenged and sanctioned
- ▶ Risk management skills and knowledge valued, encouraged and developed, with a properly resourced risk management function and widespread membership of and support for professional bodies. Professional qualifications supported as well as technical training



Key Elements of Good Risk Management Culture

- ▶ Sufficient diversity of perspectives, values and beliefs to ensure that the status quo is consistently and rigorously challenged
- ▶ Alignment of culture management with employee engagement and people strategy to ensure that people are supportive socially but also strongly focused on the task in hand.
- ▶ Take any public meltdown (Volkswagen, Libor scandal, Petrobras, Silicon Valley Bank etc.) and many of these features will be notably absent.

Case JPMorgan Trading Loss

In May 2012 JPMorgan Chase disclosed a multi-billion-dollar trading loss on its “synthetic trading portfolio”. By its own admission the events that led to the company’s losses included inadequate understanding by the traders of the risks they were taking; ineffective challenge of the traders’ judgment by risk control functions; weak risk governance and inadequate scrutiny (Dimon, 2012). According to the New York Times, individuals amassing huge trading positions were not effectively challenged, there were regular shouting matches and difficult personality issues. **(New York Times, 2012)**

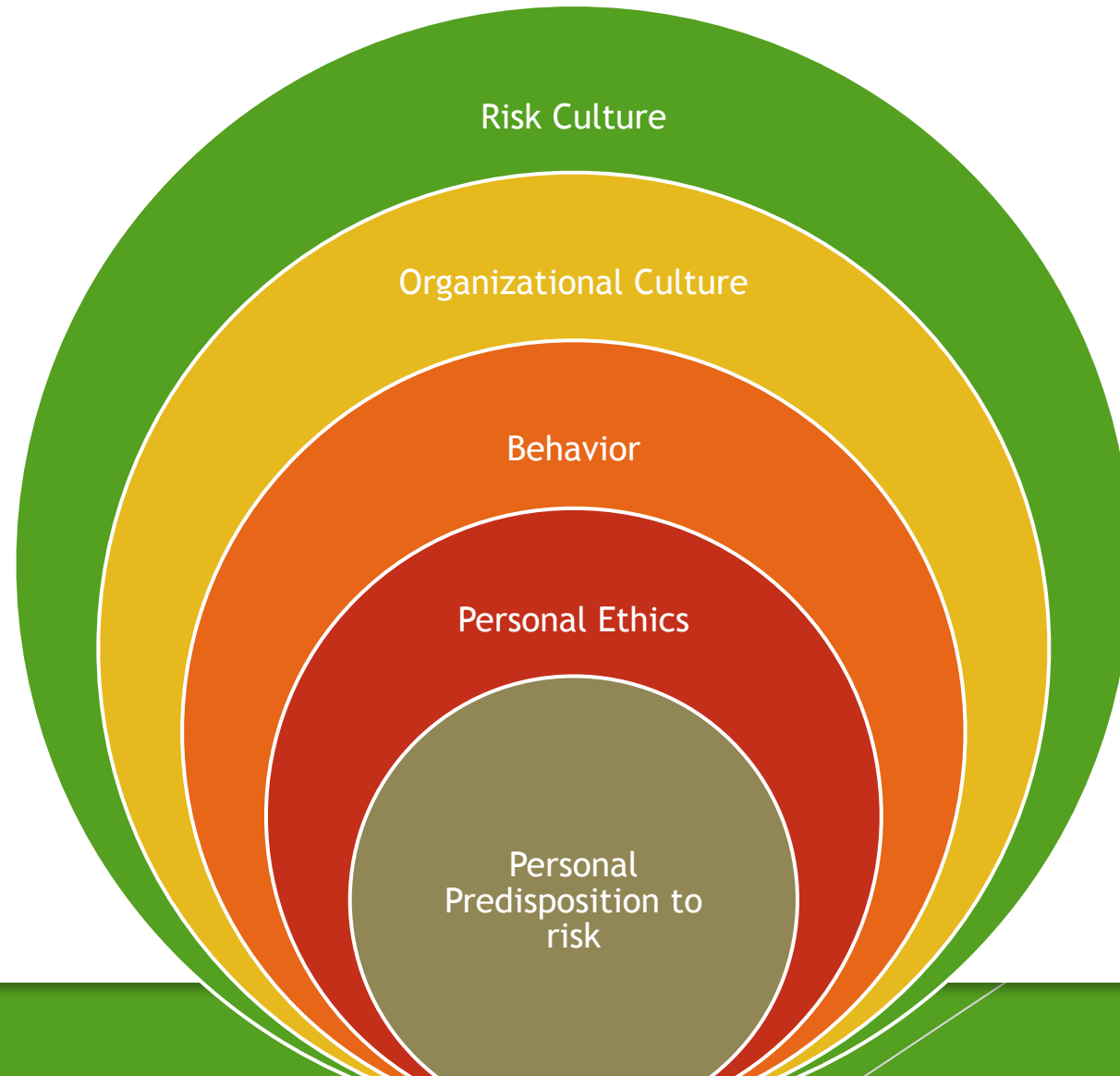


What does it mean to have a “Risk Culture”?

- ▶ Describes “values, beliefs, knowledge and understanding of risk” shared by a common group of people (all employees of an organization - no matter of type of organization nor location)
- ▶ The ABC approach:
 - ▶ **Risk attitude** is the chosen position adopted by an individual or group towards risk, influenced by risk perception and pre-disposition
 - ▶ **Risk behavior** comprises external observable risk-related actions, including risk-based decision-making, risk processes, risk communications etc.
 - ▶ **Risk culture** is the values, beliefs, knowledge and understanding about risk, shared by a group of people with a common intended purpose, in particular the leadership and employees of an organization.

Key question is whether that culture is effectively supporting or undermining the longer-term success of the organization.

Personal Predisposition to Risk



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..... identifies two specific traits that contribute to this:

The extent to which people are either spontaneous and challenge convention or organized, systematic and compliant;

The extent to which people may be cautious, pessimistic and anxious, or optimistic, resilient and fearless.

Three ethical consciences influence individuals:

1. Ethic of **obedience** (rule compliance, spirit of the law etc.)
2. Ethic of **care** (empathy, concern, respect etc.)
3. Ethic of **reason** (wisdom, experience, prudence etc.)



Five Steps to Change a Risk Culture

- ▶ Evaluate the current risk culture:
 - ▶ Look for hidden and subcultures
- ▶ What's the impact of the current cultures:
 - ▶ What are the strength and weaknesses? is it the right culture for our future?
- ▶ What would improve our risk culture:
 - ▶ What changes do we have to make?
- ▶ Plan and implement our cultural change:
 - ▶ What do we need to place and grow our new culture? What changes do we have to make?
- ▶ Monitor and adapt changes:
 - ▶ Are we achieving the expected outcomes? What do we need to change in light of our progress so far?

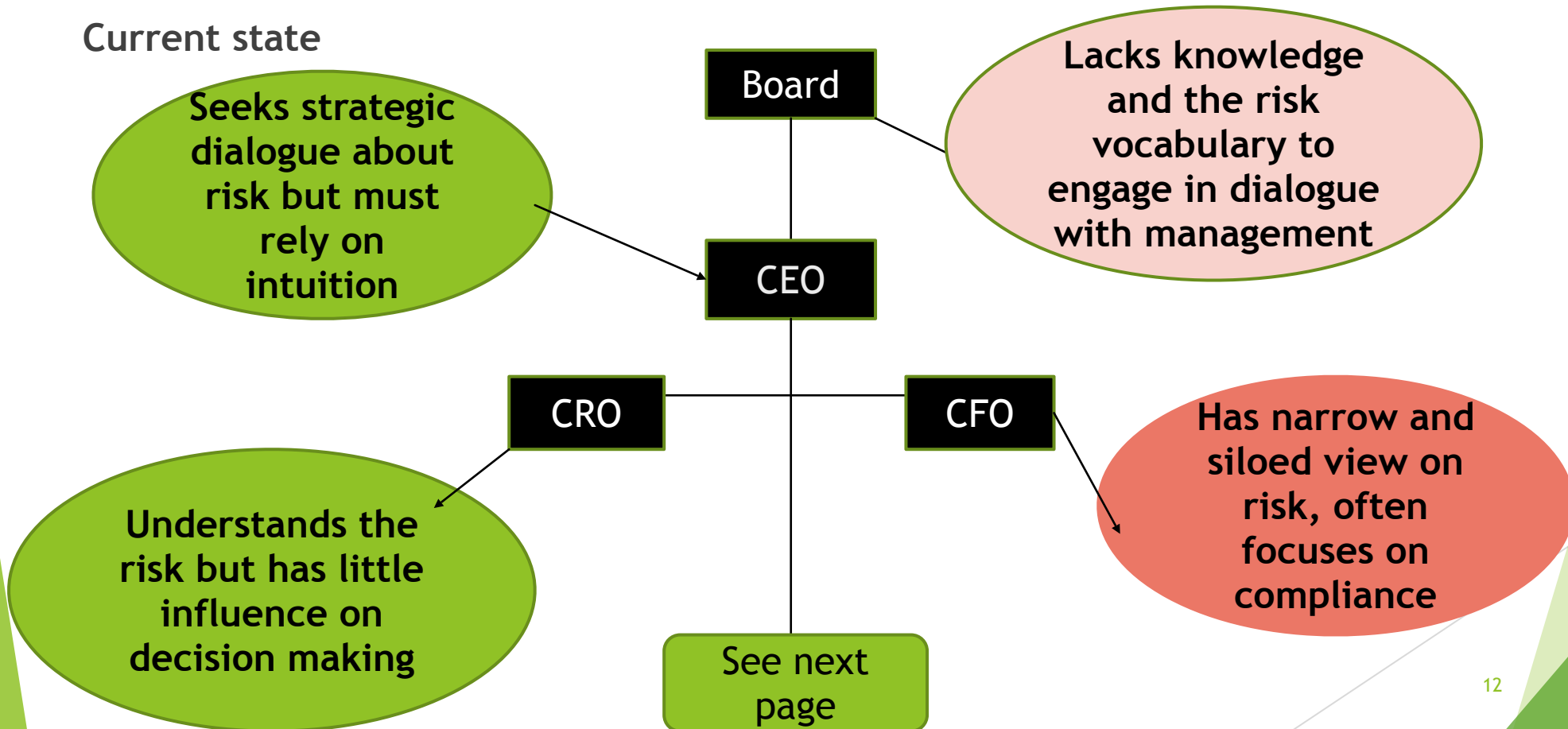


Five Steps to better Risk Management



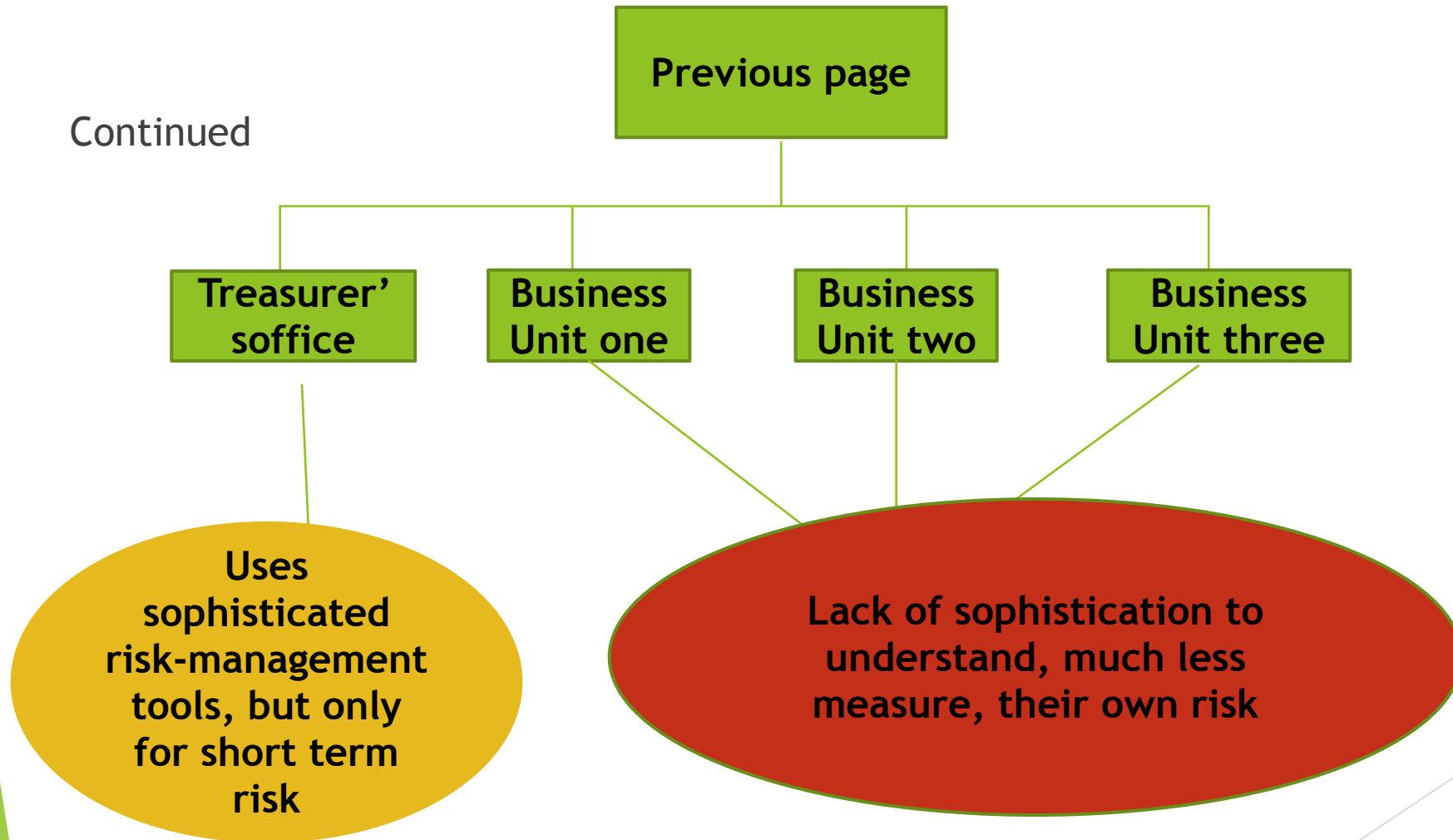
Possible Weaknesses in Risk Governance

Current state



Risk Governance

Continued





Positive and Proactive Tone at the Top Crucial for Effective Risk Management Process Ten Key Reason

1. Setting the Example:

When leaders prioritize risk management and demonstrate their commitment, it sets the tone for the entire organization. Employees are more likely to embrace risk management practices when they see it being taken seriously at the top.

2. Establishing Accountability:

A strong tone at the top instills a sense of accountability among employees and stakeholders. It sends a clear message that risk management is everyone's responsibility, and that there are consequences for non-compliance.



Positive and Proactive Tone at the Top Crucial for Effective Risk Management Process Ten Key Reason

3. Promoting a Risk-Aware Culture:

Through their words and actions, leaders shape the organization's culture.

A positive tone at the top promotes a risk-aware culture, where risks are identified, evaluated, and mitigated. It encourages open communication about risks and fosters a mindset that values proactive risk management.

4. Encouraging Board Engagement:

Effective risk management requires active participation from the board of directors. A strong tone at the top encourages board engagement in risk oversight, ensuring that risks are adequately addressed and aligned with the organization's strategy.



Positive and Proactive Tone at the Top Crucial for Effective Risk Management Process Ten Key Reason

5. Enhancing Decision-making:

When leaders prioritize risk management, it becomes an integral part of the decision- making process. A positive tone at the top encourages a thorough consideration of the potential risks and rewards associated with each decision, leading to better-informed and more effective choices.

6. Safeguarding Reputation:

Reputational risks can have far-reaching impacts on organizations. A robust tone at the top emphasizes the importance of protecting the organization's reputation by actively managing risks that could damage public perception and stakeholder trust.



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7. Ensuring Compliance:

Leaders play a vital role in ensuring compliance with laws, regulations, and ethical standards. An effective tone at the top creates a compliance-focused environment, emphasizing the importance of adhering to risk management policies and practices.

8. Strengthening Risk Communication:

Open and transparent communication channels are vital for effective risk management. A positive tone at the top encourages transparent reporting of risks and incidents, enabling a proactive approach to risk mitigation and response.



Positive and Proactive Tone at the Top Crucial for Effective Risk Management Process Ten Key Reason

9. Building Investor Confidence:

Investors and stakeholders value organizations that place importance on risk management. A strong tone at the top demonstrates to investors that risks are being actively managed, enhancing their confidence and trust in the organization.

10. Achieving Long-term Sustainability:

Organizations with a positive tone at the top in risk management are more likely to achieve long-term sustainability. By proactively identifying and addressing risks, organizations can anticipate and adapt to changing environments, ensuring their long-term growth and success and gain competitive advantage.

Conclusion in Shaping a Risk Management Attitude

Walk the Talk

A leader's words and actions have a profound impact on the employees

Show support

Actions that leaders take to support on risk management culture should be openly discussed and included in any business process

Continuously improve

Leaders should regularly find opportunities to bring evidence of their risk focused commitment to life in an authentic way

Avoid misleading action

Leaders must be aware of actions that undermine the risk management culture

Leaders on all level, from Board of Director to lowest level supervisors need to demonstrate their commitment

Questions?

Erich Schumann

Global Atlantic Partners LLC

schumann@brandeis.edu

eschumann@globalatlanticpartners.com