

# Towards Pervasive GRC

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## Building an effective Risk Culture

Horst Simon  
*COO, Dubai Centre for Enterprise Risk Management*

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# Dubai Centre for ERM

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The Dubai Centre for Enterprise Risk Management is a not-for-profit organisation that will be established within BUiD. It will play a leading role in building sustainable competitive advantage for Dubai through structured and coordinated efforts to improve the levels of risk management in all sectors of industry.

**Vision**  
 To create a culture of risk awareness by involving all key stakeholders and establishing the organisation as a Centre of excellence on Risk Management for international research, best practices and communication.

**Mission**  
 To create a repository of Knowledge on best practices in Risk Management across a diverse range of organisational settings and policy domains and make it available for Government organisations, Businesses and individuals interested in practical, policy relevant solutions on Risk Management.

Email: [DCRM@buid.ac.ae](mailto:DCRM@buid.ac.ae)





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## People Risk in the Region

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- “People are the weakest link in Continuity strategy, planning and recovery efforts” - KPMG Survey, UAE
- “It is well known in the field of information security that people are the weakest link...” KPMG Survey, UAE
- “77% of employees want to change jobs for better pay”-Gulf News Survey, UAE
- “In the case of Qatar and the UAE... net disposable incomes have fallen sharply”- Gulf Talent Survey, GCC
- 90% of the UAE workforce are expatriate- Gulf Talent Survey, GCC

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## Building a Risk Culture

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**An effective Risk Culture arises from the REPEATED behaviors of the employees of the organisation. These behaviors are shaped by the underlying values, beliefs and attitudes of individuals, which are partly inherent, but are also shaped by the existing corporate culture in the organisation**

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## Building a Risk Culture

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Over the past decade, risk management became more about quantitative models and less about behavioral models. Unfortunately, as we discovered during the recent financial crisis, even the best quantitative models cannot predict the result of misguided behavior.

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## Risk Culture Building

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Risk Culture Building is the process of growth and continuous improvement in the way each and every person in an organisation will respond to a given situation of risk as to mitigate, control and optimize that risk to the benefit of the organisation.

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## Building a Risk Culture

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The biggest change is shifting organisations from having a rear-view risk focused based on historic data, past events and modeling to a forward-looking perspective of an effective risk culture based on proactive risk mitigation, scenario analysis and risk optimization.

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## Risk Culture Building Principles

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- Supports decision-making, priorities and business goals
- Process is outcomes-driven, it has an ROI, and aim to build sustainable competitive advantage
- Tailored and responsive to organisational culture
- Continuously improve risk culture and build capacity
- Focus on risks linked to achieving results

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## Risk Culture Building Principles

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- Adds value to decision-making, planning, resource allocation, operations management etc.
- Flexible and innovative, can adjust quickly to change
- Competency based, integrated and transparent
- Controls risk within Risk appetite with a formal sanctioning process embedded in business procedures

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## Why change?

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- We have to Re-Think Risk Management- it did not work!
- Better support from top-management, but still from a compliance perspective
- New thinking focus on value-add aspects - Risk Management can have ROI
- Operational Risk is emerging as a key lever for Risk Management as it also spans across all other risk disciplines
- New tools and concepts-- not just “looking in the rearview mirror”

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Those who do not understand the risks or miscalculate the risks stand to be exploited by those who understand them better

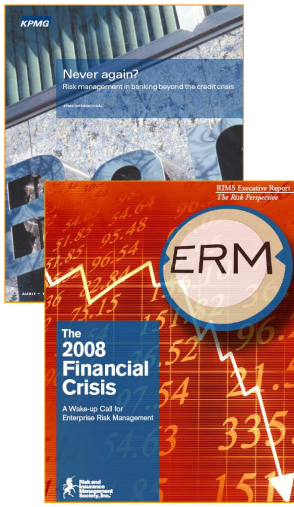
"Risk comes from not knowing what you're doing."  
~ Warren Buffett

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## Risk Culture & The Credit Crunch

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“They should have confidence in their risk **culture** and the **courage** to be able to say: Although we making lots of money here, additional risk will not result in additional value being added to the business in the long term.”

“But it also requires a certain degree of **courage** in cases where a company’s **culture** is not yet ready to embrace Risk Management fully. As Chris Duncan said, “... for Risk Management to be effective, occasionally one does have to swim against the tide and run the risk of getting eaten by the sharks.”

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**Building a Risk Culture**

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“Several organisations went well beyond their “risk appetite” -sometimes without even realizing it”

*Post-crisis Risk Management,  
Carol Beumier, GARP Risk  
Professional journal, Oct 2010*



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**Building a Risk Culture**

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- Designating an Risk Management “Champion”
- Making Risk Management part of the enterprise culture (“tearing down the silos”)
- Accept that it is impossible to identify all risks the organisation is exposed to
- Quantifying operational and strategic risks
- Lack of appropriate risk transfer mechanisms
- Monitoring the process-it is not a project!
- Start Slowly - Build Upon Successes

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## Risk Culture Building blocks

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- Risk awareness
- Common language
- Risk Appetite
- Training & Development
- Communication and Engagement
- Risk Ownership and Accountability
- Performance & Recognition

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People make it happen  
and people make sure  
that it couldn't happen  
again

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## Managing Risk in the Era of Behaviour

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The future of risk management lies in an ability to incorporate and inspire more of the behaviors we want- both the behaviors we want to **encourage** and those we would like to **avoid**

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## Risk Culture

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Risk culture is a term describing the values, beliefs, knowledge and understanding about risk shared by a group of people with a common purpose, in particular the employees of an organisation or of teams or groups within an organisation. This applies whether the organisations are private companies, public bodies or not-for-profits and wherever they are in the world.

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## Risk Culture Maturity

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- In a **bad risk culture**, people will not do the right things regardless of risk policies and controls
- In a **typical risk culture**, people will do the right things when risk policies and controls are in place
- In a **good risk culture**, people will do the right things even when risk policies and controls are *not* in place

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## Risk Culture Maturity

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- In an **effective risk culture** every person will do something about the risks associated with his/her job on a daily basis
- In the **ultimate risk culture** every person is a risk manager and will evaluate, control and optimise risks to build sustainable competitive advantage for the organisation

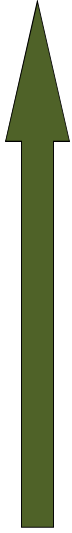
***At what level of maturity is your organisation?***

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## Levels of Risk Culture Maturity

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- 5** Risk Management delivers sustainable competitive advantage, every employee is a risk manager
- 4** Risks are measured, managed and reported with an aggregated enterprise-wide view
- 3** Policies, Processes and Standards are defined and disseminated throughout the organisation
- 2** Risk Management process is established and repeated with reliance on other people
- 1** Organizational capability lacking, fragmented and dependent on an individual *HERO*

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## Capability building blocks

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- Policies
- Processes
- People & Organizational Design
- Reporting
- Management & Control
- Systems & Data

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## Capabilities at Level 5

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Policies	Processes	People & Organizational Design
<p>Enterprise-wide risk management strategies with clearly defined goals and objectives</p> <p>Known to all staff- often available on a corporate intranet</p> <p>Focus on continuous improvement</p> <p>All new entrants educated on risk management policies and process</p>	<p>Strategy &amp; risk management fully integrated</p> <p>All new and changed processes subject to risk assessment</p> <p>Formal, organized efforts made to mitigate risks and remove inefficiencies</p> <p>Cost/ benefit analysis used effectively to manage expenditure and pricing model</p>	<p>Organizational and individual performance measures fully aligned and risk sensitive</p> <p>Knowledge and skills upgraded continuously and results tracked in a formal process</p> <p>Organizational design can adapt to changes</p> <p>Every employee is a risk manager</p>

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## Capabilities at Level 5

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Reporting	Management & Control	Systems & Data
<p>Consistent high quality enterprise-wide reporting and action plans linked to strategy, goals and objectives</p> <p>Ability to produce multiple “what if” scenarios</p> <p>Regular stress-testing of risk strategy</p> <p>Ability to design and produce “special” reports as required for strategy reviews</p>	<p>Risk quantification results fully integrated with business decision-making</p> <p>Incentives linked to risk strategies and organizational performance over time</p> <p>Risk management optimized to exploit all opportunities to achieve sustainable competitive advantage</p>	<p>Fully integrated risk measurement and mitigation capabilities build into all systems</p> <p>Capability to structure various views of the same data to quantify pools of risk exposures</p> <p>Data-structures under control of a designated executive and all changes evaluated and authorized prior to implementation</p>

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## Data inputs for Comparative Dashboard

<p><b>Policies</b></p> <ul style="list-style-type: none"> <li>• Top-down risk assessment</li> <li>• External Audit reports</li> <li>• Events of breach of policies</li> <li>• Related losses</li> <li>• Internal Audit reports</li> </ul>	<p><b>Processes</b></p> <ul style="list-style-type: none"> <li>• Bottom-up risk assessments</li> <li>• New products</li> <li>• Changed procedures</li> <li>• Safety &amp; security</li> <li>• Crisis &amp; management thereof</li> </ul>	<p><b>People &amp; Organizational Design</b></p> <ul style="list-style-type: none"> <li>• Competencies</li> <li>• Training programs</li> <li>• Staff turnover</li> <li>• HR related incidents</li> <li>• External events</li> </ul>
<p><b>Reporting</b></p> <ul style="list-style-type: none"> <li>• All risk assessments</li> <li>• Internal incidents of non-reporting</li> <li>• Action plans</li> <li>• Audit reviews</li> <li>• External changes</li> </ul>	<p><b>Management &amp; Control</b></p> <ul style="list-style-type: none"> <li>• Internal incidents</li> <li>• External events</li> <li>• Performance reviews</li> <li>• All risk assessments</li> </ul>	<p><b>Systems &amp; Data</b></p> <ul style="list-style-type: none"> <li>• All risk assessments</li> <li>• System performance tracking</li> <li>• Breakdowns</li> <li>• Security issues</li> </ul>

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## What is still wrong!

- Risk is neither good or bad until it is understood in the context of the business goals
- Compliance activities are still the sole focus of many risk management initiatives
- The narrow perception to focus on what can go wrong creates thinking that risk is driven by fear

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## What is still wrong!

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- Frameworks do not engage the whole organisation in the process of identification and assessment
- Still no common Risk Management language & standards
- Risk Management is not linked to performance management
- Risk Department is still seen as a “cost-centre”

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## People & Risk Culture

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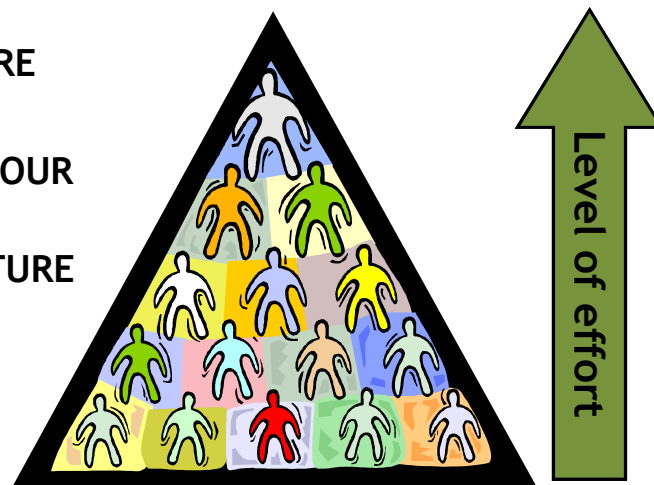
CULTURE

BEHAVIOUR

STRUCTURE

ROLES

TASKS



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## Challenging your thinking

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Does you risk  
management process  
**MOTIVATE** or **IRRITATE**  
your staff?

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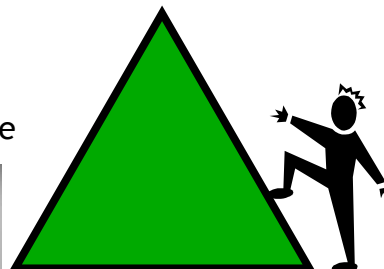
## Worldviews

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Honor / Shame

Guilt / Innocence



Power / Fear



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## Generations

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- Lost Generation (1883-1900)
- G.I. Generation (1901-1924)
- Silent Generation (1925-1942)
- (Baby) Boom Generation (1943-1960)
- 13th Generation (Gen X) (1961-1981)
- Millennial Generation (Gen Y) (1982-2000)
- New Silent Generation (Gen Z) (2001-)

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*“... few companies bother to measure their investments in human capital or the return on these investments”*

2003

*Outlook, Accenture, May 2003*

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## Your risk culture is deficient when:

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- The approach to risk events is reactive and/or consists of a series of independent actions
- Understanding of risks is inconsistent or non-existent
- Performance measures do not motivate desired risk-aware behaviors
- Messengers of bad news are not well-received by management

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## Your risk culture is deficient when:

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- Knowledge or documented risk policies and guidelines are limited
- Risk management is dependent on the efforts of a few exceptional people
- Internal audit and compliance observations are often ignored

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“The reliability of business operations at financial institutions (*and other companies*) depends to a large extent on the expertise, discipline and morale of each employee in these institutions. Efforts to maintain and improve this aspect remains a major issue”

*Bank of Japan*

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**Five Pillar Methodology**

Leadership    Actualisation    Spiritual needs    The Right Policies    Competency Framework

**PEOPLE RISK MITIGATION**

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## Maslow's Hierarchy of Needs

It is all about themselves!!

**The need for self-actualisation**  
Experience purpose, meaning and realising all inner potentials.

**Esteem Need**  
The need to be a unique individual with self-respect and to enjoy general esteem from others.

**Love and belonging needs**  
The need for belonging, to receive and give love, appreciation, friendship.

**Security Need**  
The basic need for social security in a family and a society that protects against hunger and violence.

**The physiological needs**  
The need for food, water, shelter and clothing

1954

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## Business Ethics

FROM THE CREATORS OF FIREPROOF

HONOR BEGINS AT HOME  
**COURAGEOUS**

IN THEATERS 9.30

“I am very grateful to have a job here, but I cannot do what you have asked of me. Because it is wrong. I cannot dishonor my God or my family by lying on the report”

Javier Martinez- from the movie *Courageous*

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**The Future of Business**

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**“In the workplace of the future, the fiercest competition may not be for customers, but for the hearts and minds of employees”**

**1993** *“The Economist” 1993*

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**Communication is key**

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Arabian Management Series  
Psychology of  
**ARAB MANAGEMENT THINKING**  
By Majid Said Nasser Al Suleimany

**“People here who are part of the workforce need to be more tolerant, patient and prove their capabilities and understand the other point of view. Many switch off instead of addressing a problem or a strained relationship with a manager and this only makes matters worse.”**

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## Organisational revolution is necessary

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***“Most people are more comfortable with old problems than with new solutions”***

*Anonymous*

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## What does you risk reporting look like?

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What does your risk reporting look like?

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dreamstime.com

**Meaning that:**

**You are (slowly)  
going out of  
business**

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Final thought!

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The Risk profile of any organisation must steadily INCREASE over time. (*move from green to amber and red for those who run their businesses according to traffic lights*)

As you get **BETTER** at Risk Management, you must take more risk for more reward. If you are not getting better at risk management, don't try to get more reward, it does not work that way!

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# Ignoring Enterprise Risk Management leads to the corporate graveyard



## Questions, Comments & Feedback

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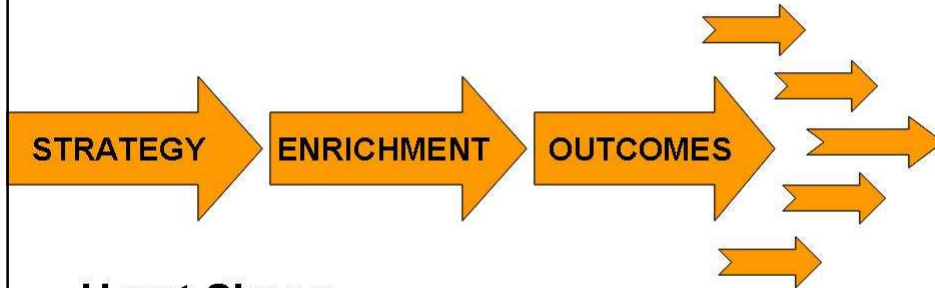


The comments made in this presentation are views based on the research and experience of the presenter and does not necessarily reflect any processes or policies of any of the companies he works with.



# Risk Culture Builders

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**Horst Simon**  
Group Owner

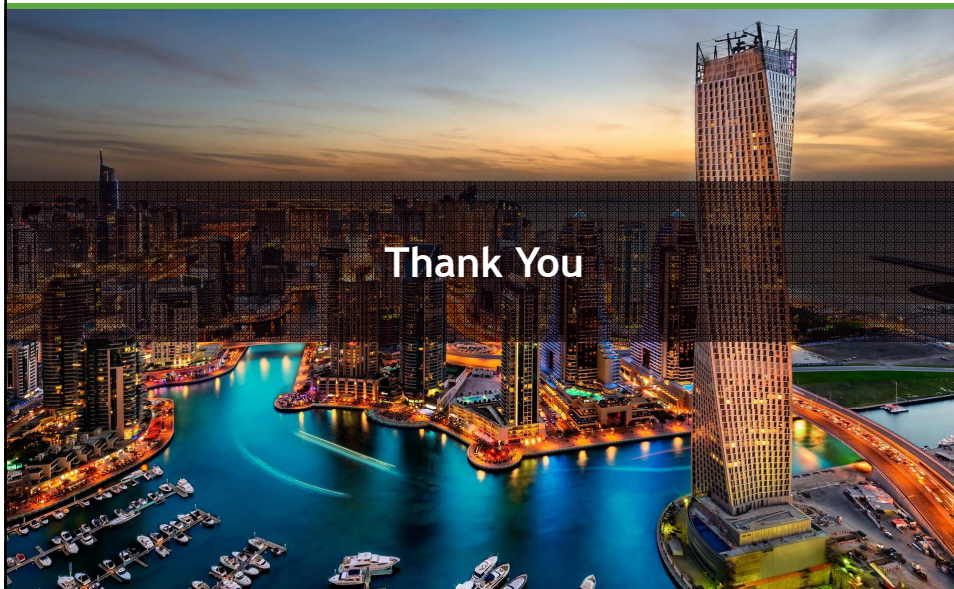
[chungarisk@yahoo.co.uk](mailto:chungarisk@yahoo.co.uk)

*“Mitigating Human Control Malfunction”*

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Thank You



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