

Risk Insights – Melbourne - 1 November 2013

Board leadership - embedding a sound risk culture

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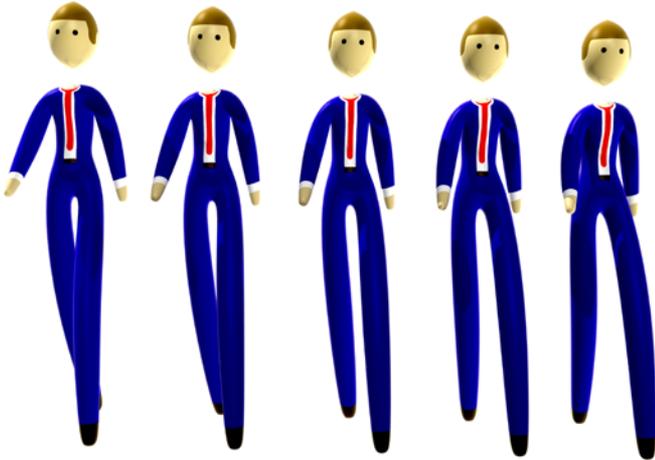
Based on research by Sean and Andrew Brown

Board role

- Setting the organisation's strategy
- Setting its policies
- Hiring the CEO
- Continuously assessing performance
- Setting risk appetite
- Setting the culture



What do we mean by culture?



1. Artefacts
2. Espoused Values
3. Tacit assumptions

Evolution of Risk Culture

	Intuitive	Reactive	Mechanical	Proactive	Mature
Individual mindset	unaware	cynical	aware	integrated	risk = opportunity
Group mindset	low trust	risk averse	committed	owned at work group	distributed
Behaviour	reckless	compliant	efficient	effective	strategic
Systems	none	compliance	performance	feedback	growth
Risk function	none	compliance	improvement	partner	empower

What shapes culture?

1. What a leader attends to, measures, rewards and controls
2. How leaders react to critical incidents
3. Leader role modeling
4. Criteria for recruitment, promotion and retirement
5. Formal and informal socialising
6. Recurring systems and procedures
7. Organisational design and structure.

Board Leadership – integration of risk consideration

- Lead by example
 - Demonstrate values and mindsets around careful risk consideration
- Leading people
 - Selection of senior executives respectful of risk appetite;
 - Shaping risk acceptability and how risk is rewarded
- Leading strategy
 - aligned with risk appetite
 - assessment of uncertainty in opportunities – up and down

Interviews with Directors – Responses #1

- *Board leadership in a complex world*
 - Risks - not as documented
 - Scenario planning
 - Get external perspective
- *Governance and Operational risk management*
 - Which risks?
 - Most material risks
 - Risk management and leadership
 - What *should* be on the risk agenda?

Interviews with Directors – Responses #2

- *The evolving nature of leadership*
 - Share and challenge
 - Chair set the tone
 - Trust – CEO, Execs, Chair and Board; Assess CEO & executive team
- *Our interconnected world*
 - Boards be able to change direction
 - Supportive business partners
- *Integrating risk leadership into strategic leadership*
 - Focus on strategic opportunities
 - Risk informs every decision
 - Risk makes you the money –risk must be embedded in the strategy.

Obstacles to a mature risk culture

1. Death by regulation
2. Drinking the kool-aid
3. Rubber bands
4. Sterility
5. The Great Dictator
6. Starving child
7. Modelomania
8. Night blindness

Conclusions

To optimise return vs risk from a risk culture perspective:

1. Risk integral to every decision
2. Board sets tone
3. Invest in mature leadership
4. Diverse board and team best
5. Catastrophe requires resilience – mature risk culture best for this
6. Best practice corporate governance
7. Transparency enhances brand
8. Have organisation “humming”

Recommendations

Apply the conclusions to

(a) improve governance

(b) add to resilience

*(c) achieve objectives via **ACTIONS:***

1. Coaching board & senior mgt
2. External experts on culture change incl. measurement
3. Board diversification
4. Open team Board dynamics
5. “For real” scenario planning
6. Promote speaking out
7. Chair & Board in charge – not the CEO
8. Board do annual risk analysis of decision making processes & abilities (Susan Oliver suggestion via AICD)

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