

Learning Risk from the Best and Worst

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Case Studies & Directors' Insights

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7 April 2014

What we'll cover

1. Board leadership in risk and opportunity
2. Developing a mature risk culture
3. Case studies x 8 – best practice and worst practice
4. Directors' Insights – interview results
5. Obstacles to a mature risk culture
6. Conclusions & recommendations

Board role

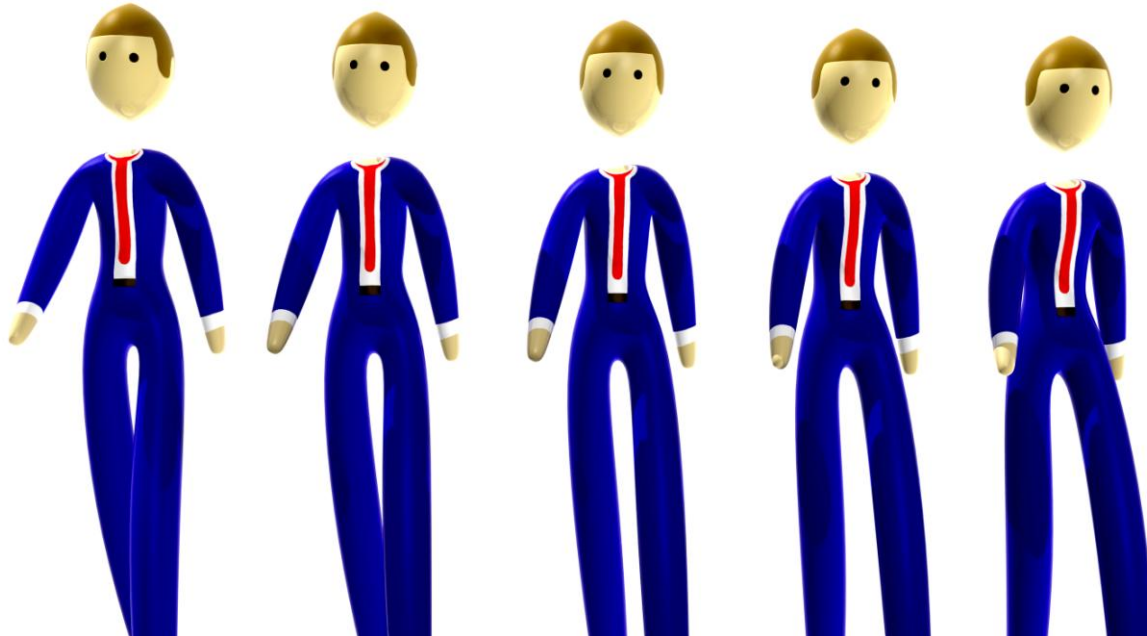
- Setting the organisation's strategy
- Setting its policies
- Hiring the CEO
- Continuously assessing performance
- Setting risk appetite
- Setting the culture



Directors' understanding of Risk Management across the Enterprise



What do we mean by culture?





Artefacts



Espoused values



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

Source: A. Brown and material provided by S. Bennett (Enhance Solutions). Adapted from a method by P. Hudson applied to safety cultures.

How do you shape a culture?

“If you set out to change the culture, you end up in fog.”

If you set out to change behaviours, then you'll change the culture.”

– Ed Schein



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.

Case Studies – Risk culture – the good

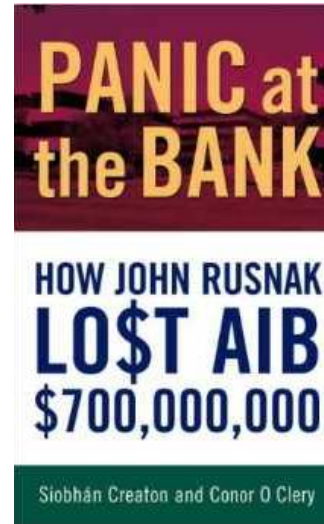
*Global
Financial
Crisis
– U.S. examples*



Case Studies – Risk culture – more good



Case Studies – Risk culture – the bad



Case Studies – Risk culture – and the ugly!



Board Leadership – integrate risk

- Lead by example
- Leading people
- Leading strategy

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

Interviews with Directors – Responses #3

- *Integrating risk leadership into strategic leadership*
 - Focus on strategic opportunities
 - Risk inform every decision
 - Risk makes you the money –risk must be embedded in the strategy.

Obstacles to a mature risk culture

*"Most success springs from an obstacle or failure.
I became a cartoonist largely because I failed in my goal of becoming a successful executive."*

Scott Adams (Creator of Dilbert)



Obstacles to a mature risk culture – (1)

- Death by regulation
- Drinking the kool-aid
- Rubber bands
- Sterility

Obstacles to a mature risk culture – (2)

- The Great Dictator
- Starving child
- Modelomania
- 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 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”

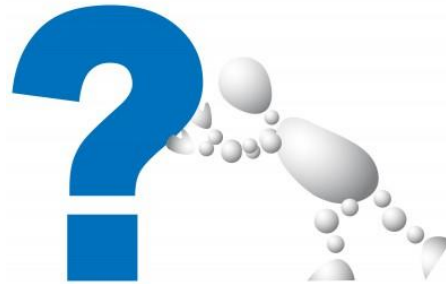
Recommendations

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
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)

Risk Management Leaders Forum 2014

Questions & Discussion



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