Deloitte.

Culture for sceptics
The catalyst for strategy and transformation

Know the worth of risk.

www.deloitte.com/au/risk-culture

Contents

Introduction

For many, it is now generally accepted that culture plays a critical role in how risk is managed across an entity. However, many people remain sceptical of something as intangible as culture - and more importantly do not know *how to understand and actively influence mindsets and behaviours across the organisation.* In Australia the importance of risk culture has been the focus of a number of speeches and presentations by various regulators which has culminated in APRA reinforcing the importance of Risk Culture in new proposed Prudential Regulations for Financial Services institutions.

This article explores this concept of culture in the context of executing strategy and managing risk, while building a case for organisations to understand their current risk culture before undertaking a transformation of risk management capabilities. We explore how organisations can attain a competitive advantage when people across their entire business (the three lines of defence) can understand what acceptable and unacceptable attitudes are to risks they are exposed to in their day to day roles even when no guidance is provided by policies and procedures.

What is culture?

At its simplest, a company's culture answers two very basic questions faced by each of its employees. What must I do to get ahead in this place? How do I need to behave?

Neither airy, nor fairy

It's easy to sound vague when talking about culture. Leaders may talk about building a culture of innovation, endeavour or customer-centricity but you can never define this as crisply as you can a cost-income ratio. And you can't measure it with precision like market share. But it is real and straightforward and – understood in the right way – entirely possible to manage culture for the betterment of your firm.

To see what it is, though, you need to understand its function. And by 'function' we do not mean the use that the company wishes to make of it. We mean, the role it serves in helping individuals in your firm work out what to do and how to do it.

Imagine the first day at work for people in your company. Your newest recruits arrive with a head full of deeply personal needs and wants, typically about fitting in, making a good impression and furthering their career.

As a business leader, however, your ultimate goal in recruiting these people is so that they can help you execute your strategy. That might be to target a specific risk-adjusted return on equity. Or to establish pole position in a fast developing market.

How do the new recruits know what to do? There isn't, alas, a treadmill that generates higher returns on equity the faster your recruits run. How can they map their own needs and self-interests to their new role in your firm? They need to work out a couple of things as soon as possible. Firstly, they need to know their own specific or team objectives. What should they do to contribute to the big picture? Secondly, they need to understand the how. How should they go about achieving the goals set them?

They cannot rely on their instincts to answer these questions. Nor can they learn for themselves by trial and error because the possibilities are too numerous to work through, and the down-side risks of getting it wrong may be simply too large.

It is much better for employees to pick up the answers to 'how' questions from the people around them who are already established in this work environment. From the point of view of the newbies, it clearly works well enough for current staff and after all it has got the firm this far.

That's what culture is: information about how to behave when adapting to particular environments. This information is rich and varied, and we pick it up both consciously and unconsciously. It covers all the vital bases that are common to any company:

- How we challenge one another and escalate potential issues
- What happens when mistakes are made
- What is prioritised in trade-off decisions
- When it is appropriate to deviate from established norms
- The way things are done round here
- How we treat customers and colleagues
- what's allowed and not allowed;
- What's expected of me: timing, frequency, intensity and standards of excellence
- What behaviours are valued
- Who to please and how to please them and
- Where to strike trade-offs when values, goals or priorities come into conflict.

At its simplest, a company's culture answers two very basic questions faced by each of its employees. What must I do to get ahead in this place? How do I need to behave even when no one else is watching?

Your staff are hungry for this kind of information, and as we will see, they pick it up from a surprising variety of sources.

Why culture matters

Culture matters because when it is aligned to your strategy, it acts as a catalyst that speeds up execution. When culture is not aligned to strategy it becomes not only an impediment to strategy execution and sustained high performance, it may be harbouring inappropriate behaviours that could manifest into a material and significant risk-related incident.

An aligned culture will help your firm become more responsive, adaptable, innovative, risk intelligent, efficient and connected. Listen carefully and you will hear the purr of fulfilment, the hum of common purpose. When skilfully managed, it is no surprise that culture becomes a powerful and enduring competitive advantage.

Researchers at Harvard Business Review have found that almost every enterprise that has attained peak performance – including the Four Seasons, Apple, Microsoft, and Southwest Airlines – sees culture as *"a competitive advantage – an accelerator of change, not an impediment."*(HBR, 2012).

Deloitte's research shows that high-performing cultures are able to excel at a small number of fundamental tasks. They:

- Align (gain clarity on vision, strategy, and shared employee behaviours);
- Execute (move in the agreed-upon direction with minimal friction); and
- Renew (continuously improve at a pace that exceeds competitors).

A culture that is not aligned to your strategy may be propagating inappropriate attitudes and behaviours that undermine long term performance and reputation. Existing programs and strategic initiatives may even be creating untended cultural consequences – for example: becoming too risk averse as a consequence of responding to regulatory change.

But when culture goes bad it will thwart your best endeavours and eventually drain the lifeblood from your firm. You will not be able to guide the behaviour of your employees, because they are following the directions of the embedded company culture – not you.

There may be scandals, turmoil and disappointment. There will almost certainly be lost opportunities and margin erosion. Staff will lose you money and make mistakes and, in the worst case, the organisation will continue to run as a machine that propagates a certain kind of culture by stamping a sub-optimal mind-set on all those who join it.

"Finance can play a socially useful function but in order to do so the focus has to be on the real economy. There has to be a change in the culture of these institutions. The cultural issue is fundamentally important."

Mark Carney, Governor of the Bank of England and Chair of the Financial Stability Board; BBC interview August 2013

In Deloitte's recent survey on culture within banking, we asked senior executives to say what they thought had caused cultural problems in their industry. Five of the six top answers have a clear cultural backdrop (see summary table below).

Reason for problems in banking	The cultural backdrop
Compensation structure (i.e. fixed vs variable, cash vs. equity, length of deferral period, claw-back arrangements)	Employees will pick up cues from the structure of compensation that help them answer the basic question: 'What should I do to get ahead in this place?' Compensation structures will be proposed by some people and challenged by others. How open and honest are these discussions? Who has the clout to make their views prevail? That's a cultural question.
Management teams' understanding of the risk on their balance sheet	Are staff members allowed to hoard information because they want to hoard power? Is information sometimes sanitised? Does the belief prevail in your firm that it's better to seek forgiveness than permission? If so, the true risk profile of the balance sheet may not be known until it is too late.
Board oversight	Your Non-Executive Directors need to be fearless (and occasionally fierce). It needs to be OK for them to ask potentially "left-field" questions. Fear of seeming ignorant or standing out can stop overseers from challenging effectively.
Compensation levels	Actions speak louder than words but money shouts loudest of all. And it is not just about the salary. Money is a way of keeping score, and the highest scorers win prestige and power. Are your staff's near-term career prospects damaged by sharing bad news outside their immediate teams?
Performance metrics	What do you really want your employees to do? What will you reward them for doing? If you measure success in their roles by a few near-term return on capital metrics, they will assume that is what you truly value.

Should any of these scandals or mistakes become public, the people who write the rulebook for financial institutions may decide it needs strengthening. Rulebooks are blunt tools, though, and inevitably add to the costs of business. The more rules there are, the bigger the internal compliance function becomes, even as responsibility for following the rules becomes steadily more diffuse.

Rules only guide behaviour if people know them, understand them and follow them. But a regulatory handbook on every employee's shelf will not by itself determine behaviour.

To their credit, regulators realise this and have put forward an alternative to heavier rule books. Their emphasis is now on culture.

> "In many cases, where things have gone wrong, whether it is mis-selling of PPI or in attempting to manipulate LIBOR, a cultural issue is at the heart of the problem… It is clear to us, therefore, particularly as a conduct regulator, that the cultural characteristics of a firm are a key driver of potentially poor behaviour."

FCA: The importance of culture in driving behaviours of firms and how the FCA will assess this; April 2013

How culture works

Remember what culture is. A torrent of information that helps your staff work out how to behave on the job so that they fulfil their own needs – while achieving the goals your firm has set them.

Remember, too, that we are not just dealing with explicit instructions about 'doing this' or 'avoiding that'. People pick up values as broad themes that can guide their behaviour more generally and across novel situations that never earn mention in any staff handbook. When values collide, or when the demands of different stakeholders conflict, staff need information on how to strike a balance and what to prioritise.

Think of all of this information as a series of messages.

Now think about the medium and the messenger. Some messages have greater or lesser impact depending on the medium and the messenger. A cultural strategy needs to consider all three.

For now, though, let's consider the medium or channel through which the message can be delivered. There are five broad channels through which your people pick up these sorts of cultural messages, or become 'encultured'. Not all of them are obvious and not all of them necessarily transmit consistent or positive messages.

Channel #1: Role models

The stereotypical alpha male or female is only the most straightforward example of a role model. Any individual worthy of imitation – at any level of the organisation – is a role model. They may lead by example, by personal charisma or by the power of persuasion. And they can be positive or negative for the organisation. Individuals who are seen to succeed while flouting the formal norms or cutting compliance corners will be seen as role models. They may even influence more people than your diligent overachievers.

Your leadership teams will likely contain a variety of abilities in being role models. After all, professional accomplishment is quite different from personal charisma. This means that a 'heat map' of role models in your firm may look very different from your hierarchy of reporting lines or governance map.

Channel #2: Explicit enculturation

People update their cultural settings throughout their time with your firm, but the first few weeks and months are particularly crucial because that is when staff are most malleable – and their information needs are most acute. During your recruitment procedure and formal induction (if you have one), you are able to tell employees exactly what kind of firm they are joining, what values they should espouse and what behaviour is expected of them.

Staff handbooks, regulatory rulebooks, formal policies and manuals are all explicit attempts to guide behaviour. They can be detailed and dirigiste or disarmingly blunt. To give an example from the US retail sector, the customer relations handbook of Nordstrom runs to just a few lines: "Rule #1: Use best judgment in all situations. There will be no additional rules."

Who gives these messages and how they are delivered are crucial parameters under your control.

Channel #3: Incentives

How much do you pay to whom, with what conditions and for doing what? Who gets promoted? What non-financial rewards are distributed?

Your staff use facts and perceptions about remuneration and incentives to discover what your firm truly values. And not just in the management of their own performance. When push comes to shove, who is rewarded in this organisation? That kind of cultural information helps them to discover the firm's ultimate values. And values help determine behaviour. If the staff handbook says one thing, while the bonus pool says another, your staff will tend to believe the bonus pool. Wouldn't you?

Channel #4: Symbols, fables and structures

The new CEO makes a note of all the surnames on taxis queuing outside his head office. He emails the people, asking them why they are burning the company's cash by keeping cabbies waiting?

The Head of Compliance is seen jumping over the security barrier because he is late for a meeting and has forgotten his pass.

The Chief Risk Officer comes down from the executive suite to shake the hand of a junior analyst who has just received top marks in her exams.

The Chief Finance Officer finds a small rounding error on page 127 of 128 in a draft report.

Your staff are hungry to find meaning in the events that take place around them. Modest anecdotes can take on much wider symbolic importance and – for better or worse – can help spread values far across the organisation. Symbolic information of this kind includes the cultural cues your staff glean from physical and organisational structures. A building contains information on priorities and values. An organogram points to power. Even the staff canteen can give clues to hierarchy.

Channel #5: Revealed preferences

Every firm wants an excellent reputation for customer service. And a strong financial base. And to surprise its shareholders on the upside. And to be the employer of choice. And the list goes on…

The question is, how does your firm solve the tension between these goals? We have yet to see a staff handbook that sets out exactly where to draw the line.

More likely, your employees will pick up information on trade-offs from seeing what happens on the ground.

As the CEO of Netflix Reed Hastings has pointed out, "many companies have nice sounding value statements displayed in the lobby." Enron's lobby displayed the following words:

- Integrity
- Communication
- Respect
- Excellence

"The actual company values, as opposed to nice-sounding values," argues Mr Hastings, "are shown by who gets rewarded, promoted, or let go."

Imagine, one of your star performers has beaten sales targets and expects a hefty bonus. However, his behaviour has been appalling and a number of colleagues have threatened to resign rather than work with him. What should the firm do? The preferences it reveals in reaching a decision will linger long in the corporate memory. Imagine that the individual is managed out of the firm. Staff now know that you are serious about rewarding good behaviour.

To take another example, suppose that the tone from the top tells staff that co-operation between teams is the number one area for improvement. There is a plan to bring everyone together in the same building, because it is seen as a vital way to cement closer working ties. But the plan goes nowhere due to cost pressure.

The firm has revealed a preference for saving money over relocating offices to promote better teaming. The symbolism of the choice helps to communicate the cultural value.

The five channels

Your staff pick up cultural information across the five channels, alert to contradictions and inconsistencies. They use it to work out what to do, and show others – through their own behaviour – how they have interpreted the 'rules'.

Figure 1. Channels through which your staff pick up culture

Key lessons from the cultural perspective

Don't be a sceptic when it comes to culture. A focus on the so-called 'softer' stuff can reap real dividends. But don't be a zealot, either. It is culture you want to create; not a cult.

Steer a middle course between these two extremes and you can turn culture into a powerful catalyst that speeds up the execution of strategy and raises your firm's metabolic rate.

The key insights on culture that should inform strategy makers are as follows:

- If culture is not your friend it is likely to be your foe. There are very few aspects of an organisation's culture that have a neutral bearing on your ambitions for the firm. Over time, a dysfunctional corporate culture is likely to affect everything from your company's performance to the way your brand is perceived. "As Starbucks CEO Howard Schultz recently said, 'The value of your company is driven by your company's values'." (Forbes, 2012).

- The right culture can achieve concrete business results that no amount of strategic initiatives, rules, policies or compliance drives can deliver: your staff follow you because they want to. They offer up their best ideas and greatest endeavours because that is what they have learned to do. It is how they get ahead.

- Cultural messages are picked up by staff across five broad kinds of channel. Do you have a clear idea what messages are sent down these channels?

  – Role models
  – Explicit enculturation
  – Incentives
  – Symbols, structures and fables
  – Revealed preferences

- How could the five channels best operate in your firm? Who are your current and potential role models? How effective are your recruitment and induction procedures? Does the formal enculturation capture what you need it to? What messages does your remuneration system send out? What lessons are transmitted through fables, symbols and structures? How are your firm's preferences revealed?

- These channels are the tools at your disposal. The messages that are transmitted down these channels are within your control. So too are the messengers.

- Inconsistencies in the messages across these channels will undermine your credibility and make it harder to executive each subsequent strategic change. Consistency, on the other hand, reinforces and strengthens the messages.

- Your strategic initiatives need to be culture-savvy. Work out how you will implement your strategy in a way that works with the cultural perspective.

- Be ever wary of letting initiatives fizzle away. Past failures sap the prospects of future success because they embolden any professional sceptics within your firm. In contrast, a track record of following through preps your workforce with positive expectations. Staff engagement and success become part of the culture.

Making culture a catalyst for strategy

Once you see what culture really is, you can start to shape it. You do not have to accept the default culture that happens to have arisen down the years. Make it the culture that best matches your ambition for the company.

Our approach helps you make culture a catalyst for strategy and is based on seven guiding principles.

Principle #1 – Culture should be aligned with business strategy and direction

There is a 'fit for purpose' connection between culture and the strategies that an organisation pursues as it meets the challenges of its business environment. There is no one 'right culture' valid across all organisations.

You decide what instructions and messages most need changing. Focus on the few changes that matter most. Don't try to change everything at once. We have found that it is not possible to meaningfully change more than five aspects of an organisation's culture in a 12- to 18-month period.

For example, you might want to start with establishing the basics: agreeing on a shared direction, creating a baseline of openness and honesty, and developing a "can do" sense of personal accountability.

Once cultural elements are sufficiently improved, you can move on to creating a culture of innovation, people development, and customer focus. Attempting to tackle all of these themes at once would likely fragment the effort and weaken the focus and impact.

Principle #2 – Leaders at all levels drive the creation and reinforcement of culture – for good and bad

Culture is driven through the example set by formal and informal leaders. Leaders show people how to solve problems. In doing this, they create and instill the 'real values' that are learned over time. These become the beliefs about what to do and how to do it that slip below the observable surface of any organisation.

If you pass up the responsibility for deciding and setting the company's culture, then someone else will do it for you – and they may not be the leaders you have in mind.

Cultures are self-generating. Even a randomly chosen set of individuals grouped into a team and set tasks will start to develop a culture. Some of the individuals will be more influential than others and it is their way of doing things that will prevail.

Principle #3 – Uncover the values and beliefs that work "below the surface" first

Moving culture starts with uncovering the "below the surface" beliefs that have developed over time. These unconscious mental models or norms guide how people act. They are often different from the stated values of the organisation, and are reinforced by the message received via other channels.

Principle #4 – Leverage your existing cultural strengths to change culture

When shifting culture, consider the symbols, behaviours and systems that have been strengths and how these can be used to build a new or different culture. Consider the important traditions and rituals that represent positive links with the history of the organisation.

Principle #5 – Changing 'what you can see' will help you change what's below the surface

By changing behaviours and using symbols and systems to reinforce this, you can drive the changes in beliefs and values that you want.

Principle #6 – For each of your cultural initiatives, think about message, messenger and channel

Suppose you want to instill a culture of genuine innovation across the firm. That's the message. Decide who your champions should be and how to use your five possible channels to greatest effect. The more you can be consistent across channels, the greater impact you will have.

Cultures are self-generating. Even a randomly chosen set of individuals grouped into a team and set tasks will start to develop a culture.

Unless you send out consistent messages down different channels, how can you predict which one will be followed, if any?

It is not just that contradictory messages may be ignored. It's that sending out contradictory messages is itself a kind of message. It reveals: we don't care about consistency.

For example, a company might make all the right noises about team work but the leadership may fail to be role models.

Or the formal incentives in a balanced scorecard may try to reward certain behaviours. But if star performers are allowed to flout the guidelines, the company's implicit preferences are revealed.

Principle #7 – Think integrated and focus on cultural change on all levels (the individual, team and organisation) and in co-ordination with your other business initiatives

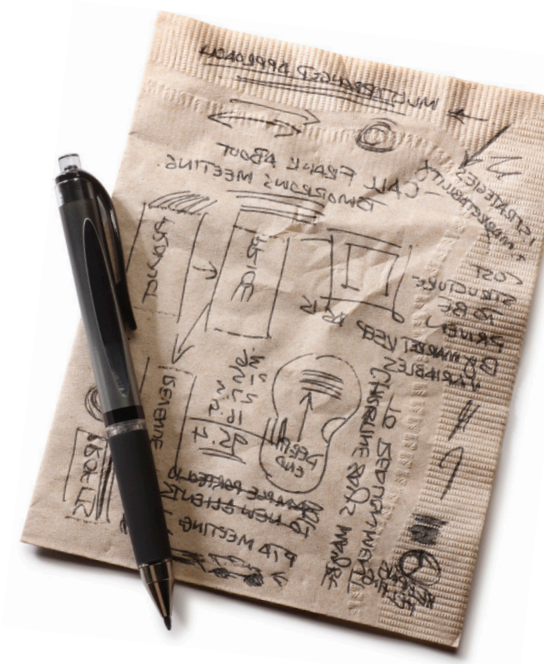
Culture change needs to focus on the individual, team and organisation in order to shift culture and 'make it stick'. Behaviour changes will guide individuals, teams and eventually the whole organisation. Changing symbols and systems such as strategies and performance management systems can help culture change stick across the whole firm.

It is vital to integrate culture change efforts with business improvement initiatives because your staff typically face many demands on their time. This means that culture change efforts run as stand-alone programmes typically are last on the list and rarely succeed.

Executed well, culture change programmes using these steps not only deliver better bottom-line results, but also provide a more fulfilling environment for employees.

Successful efforts, we have found, are fully integrated into the business initiatives you are pursuing — and this is much more easily done once you have defined the target culture. To give two brief examples, suppose your organisation needs to improve its cultures of personal development and sharing success. Do not try to launch a project called 'improving our culture of personal development and shared success'. Instead, look for more imaginative ways to deploy your high performers in peer-to-peer coaching. And make sure end-of-day team meetings that usually focus on numbers include stories of how individual members have made a difference.

Executed well, culture change programmes using these steps not only deliver better bottom-line results, but also provide a more fulfilling environment for employees. Remember that a successful culture marries human needs with business objectives. For many executives, leading a successful culture-change programme is the most rewarding work of their career, because it allows them to integrate the human factors we all share with business success.



Case study – making risk appetite culture-savvy

The guiding principles we have just explained will help you execute your strategy. To see how it works in practice, consider risk appetite, another key focus of change at financial institutions. Deloitte's approach to designing and implementing a risk appetite framework incorporates the lessons of the cultural perspective in a number of ways and helps to turn it from one more control owned by the risk department into a dynamic tool for enterprise-wide risk management.

Does that sound far-fetched? It shouldn't do. A good risk appetite framework delivers clear messages from compelling messengers and uses **all five channels** to transmit this information to staff across the firm.

Revealed Preferences

Remember that risk appetite is a description of the risk a firm is willing to take in the pursuit of its strategy. It is a conscious acceptance of the nature and scale of risk taking that the firm has decided to accept as a consequence of its business strategy. Employees do not have to wait for the firm's preferences to be revealed, with all the potential for inconsistent messages. The trade-offs between risk and reward in a risk appetite framework are made up front, across all material risks in a conscious attempt to decide the right calibration, and at a firm-wide level.

For some kinds of risk, this is largely routine. Take credit risk. Every bank knows that not all of its customers will repay their debts. Defaults are not welcomed, but the possibility of credit risk is consciously accepted – and can therefore be quantified and tracked. An appetite for credit risk can be formulated, and limits and triggers can be set to warn the organisation if actual exposure is moving too far above or below the desired level.

Role models

In a well-established risk appetite framework, the tone comes fairly and squarely from the top, who lead by example. The Board embraces its responsibility for discussing, challenging and approving the firm-wide risk appetite, which it can only do once confident that there are appropriate systems in place to identify, measure and manage risks. Business line leaders also lead by example, and embed risk appetite reporting and thinking into their own divisions.

Explicit enculturation

Once the Board has established what the risk appetite should be, it approves the high-level risk appetite statement, which is an explicit attempt to inculcate the right risk culture.

Lower-level risk appetite statements are cascaded down the firm, becoming tailored to individual profit centres or business units in ways that make sense to them. Their goal is to convey a shared sense of 'the way we do risk around here' and will typically contain a mixture of calibrated risk limits and qualitative DOs and DON'Ts.

The ultimate goal is to influence risk behaviours not just through specific metrics, but through a description of the kind of risk-taking the Board wants to promote. The adjectives can be as important as the numbers.

Induction, policies and staff manuals explain that risk appetite is fundamental to the way the firm approaches risk management. Each individual is trained on his or her role in the risk appetite framework.

Symbols, fables and structures

Not every risk message can be transmitted via a metric. The concept of risk appetite itself is a largely metaphorical. And the power of this symbolic language, generating a shared understanding across the firm, is central to the success of any risk appetite framework.

Modern risk appetite frameworks explicitly acknowledge that numbers alone are not enough to shape behaviour. To see why, consider conduct risk and the requirement to 'treat customers fairly' (TCF).

How should the Chair of a Board, a regulator or a compliance manager try to draft the instructions to a bank's staff that will spell out how to act fairly? How long would the text have to be to cover all eventualities and all possible innovations in product design?

Even if perfect foresight existed, the document would be too long to be read and remembered. The idea is a non-starter. Instead, values and principles need to be carefully inculcated and a few well-chosen business fables can be particularly useful in illustrating the DOs and DON'Ts of conduct risk appetite. Staff can generalise from examples to their own specific situations.

Aligning culture, risk and remuneration

Incentives

The culture of incentives in financial institutions needs to have risk baked into it. And it is a central duty of a risk appetite framework to ensure that this happens.

However, because remuneration in financial institutions is so important and so interlinked with other aspects of strategy, and post-crisis reform, it deserves special mention. For that reason, we elaborate on this channel in the next section: 'How to align culture and remuneration to drive performance.'Most financial institutions solve problems for their customers by taking risk on to their balance sheets.
The discretions awarded to staff can magnify these risks many times over. Individual actions taken by your employees can have huge repercussions on their own positions now and in the future, as well as on many other people in the firm.

If a company's remuneration is not adjusted for risk, then it is silent on risk – and that cannot be a sound way of implementing a long-term strategy.

For these reasons, the incentive channel needs to send out especially strong and consistent messages.

Instilling cultural values such as accountability, meritocracy and transparency may still fall to your HR department, but your risk and strategy departments also have a vital role to play in working out how to incentivise and measure risk-adjusted performance – which is the kind of performance most worth caring about in large, complex financial institutions that face capital constraints.

Designing remuneration strategies is especially difficult because measuring the risk-adjusted performance of individuals can be contentious.You may not know the end result of your employees' actions until many years have passed. The risk that they have taken on to achieve particular returns may not be easy to assess, and how far you understand it may depend upon their willingness to share information with your control functions.

The culturally-savvy remuneration strategy will reveal your firm's preferences by adjusting for risk in three key ways:

Risk-adjusted performance metrics

Reward performance that makes superior returns on the capital that needs to be held to cover particular business activities. You need to tell your employees what to target, recognising that the annual performance contract contains metrics that communicate your values and priorities.

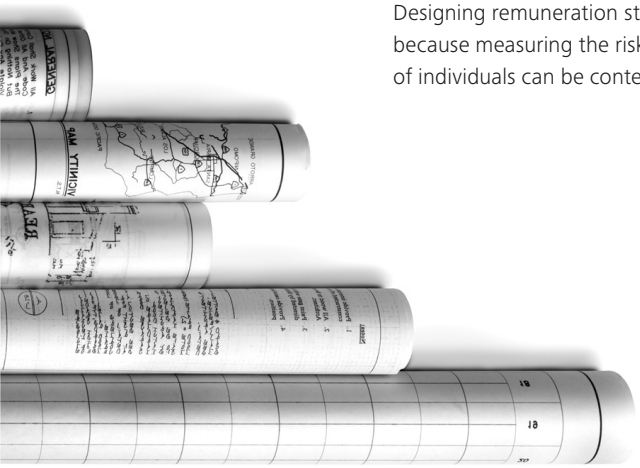
Risk-aware remuneration structure

Design the structure of remuneration (timing, deferral, equity/cash split, claw back arrangements) so that rewards are disbursed once the firm has a clearer understanding of whether the risks were well-taken.

Risk behaviours within a balanced scorecard

Prioritise and assess the behaviours and values that will embed risk within the day to day business activities so that individuals act with awareness of the risks their actions create for the future of the firm or for other parts of the firm.

By working together, your remuneration, strategy and risk departments send out another crucial message to all your firm's employees. You care enough to join the dots and make this a priority – despite the practical challenges.



Tools to help you

Committing time and resources to cultural transition requires resolve and an unwavering eye on both the details of project management and the ultimate prize: a culture that helps you drive strategy.

With its pragmatic three-phase approach, Deloitte can help you through all stages of the cultural change journey. Our Cultural Transition diagnostic helps you confirm your profile and understand the challenges during Phase I.

Our Maturity Framework in Phase II lets you see where the priority areas lie and helps you develop a plan to target improvement.

Finally, programme management tools support you in Phase III by executing the plan and running your cultural change initiatives within agreed timelines and budgets – and as an integrated part of your wider change initiatives.

Phase I

Identify the challenge

- Identify business need and cultural challenge.

- Define current profile – i.e. "where you are" – using the assessment tool.

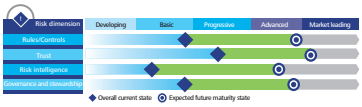
Deloitte Risk Culture Framework

Risk competence	Motivation	Relationships	Organisation
The collective risk management competence of the organisation.	The reasons why people manage risk the way that they do.	How people in the organisation interact with others.	How the organisational environment is structured and what is valued.

Phase II

Define the 'right' culture

- Use Maturity Framework to define target profile – i.e., "where you want to be".



- Choose key aspect of culture to change and decide how to use messengers and channels to best effect.

- Define culture transition plan.

Create Culture Transition plan

Phase III

Execute and make it stick

- Consider how culture operates at different levels.

- Apply different tools to make culture transition stick.

- Execute, integrate and monitor Culture Transition Plan and make it 'stick'.

Who would have thought it?

Reforming your firm's culture is an entirely pragmatic response to pressing business and regulatory needs. Culture can be the catalyst that speeds up the execution of your strategy. Or it can smother your best-laid plans.

Further understanding key aspects of your culture, in particularly risk, is a critical precursor to improving or transforming the way risk is effectively and efficiently managed across the business.

It is neither airy nor fairy.

You can change your firm's culture by focusing on the five channels outlined in this paper.

You have every reason to try.

Case Studies

Understanding Culture to Embed Risk Appetite
In response to regulatory changes that impact financial conglomerates, this global investment wealth and banking organisation needed to implement and embed a clearer risk appetite framework across the organisation. In the past risk and compliance changes had been designed centrally and pushed out to the first line business teams under the wishful expectation that behaviours, and more importantly mindsets, would reflect the new polices and processes.

This time however a different approach was taken to understand how people in the organisation behaved and thought about the management of risk in relation to driving business performance.
This insight of risk culture helped to refine the design of the required changes to leverage existing cultural strengths – and importantly influence areas of weakness that would undermine these changes.

Reshaping the Shadow of Leaders
With a clear strategy to drive competitive advantage through people consistently "doing the right thing", this global investment bank developed a program to help leaders understand the impact of their day to day actions (what is said, what is done, where time is prioritised) on their teams to strengthen their risk culture. The program focused on how leaders make critical decisions – with particular emphasis on:

- Who is engaged and collaborated with
- What factors are demonstrably considered (such as reputation) and
- How leaders signal to all staff a different style of critical risk-related thinking to improve business outcomes.

The program was built on a clear picture of the current risk culture providing granular insight to help leaders focus on areas that would have the greatest impact for their teams.

Contacts

Peter Matruglio
National Lead Partner Risk Transformation
Sydney
+61 2 9322 5756
pmatruglio@deloitte.com.au

Matthew Fraser
Partner
Melbourne
+61 3 9671 7261
matfraser@deloitte.com.au

Richard Jamieson
Partner
Melbourne
+61 3 9671 7413
rjamieson@deloitte.com.au

Grant McKinnon
Director
Sydney
+61 2 9322 3693
gmackinnon@deloitte.com.a

Kerry Low
Director
Melbourne
+61 3 9671 7456
kelow@deloitte.com.au

Sal Sidoti
Director
Canberra
+61 2 6263 7195
ssidoti@deloitte.com.au

Clare Bower
Lead Partner Public Sector
Sydney
+61 2 9322 5625
cbower@deloitte.com.au

Matthew Saines
Partner
Melbourne
+61 3 9671 6792
msaines@deloitte.com.au

Carl Gerrard
Partner
Brisbane
+61 7 3308 7046
cgerrard@deloitte.com.au

Wendy Yip
Director
Sydney
+61 2 9322 5198
wyip@deloitte.com.au

Lauren Brown
Director
Melbourne
+61 3 9671 7492
laubrown@deloitte.com.au

MCBD_HYD_06/14_01925