Risk culture

Building great organisations and growing your foundation for success

CAPABILITY STATEMENT 2016
What the regulators are saying about risk culture

“Without a culture supporting appropriate risk-taking and the fair treatment of consumers, financial firms will continue to fall short of community expectations”
- FSI Final Report, 2014

“We will incorporate culture and incentives more explicitly into our risk based surveillance reviews”
- ASIC Corporate Plan 2015-16 to 2018-19, 2016

“Boards give a critical role in setting the “tone from the top”. We expect them to take responsibility for their firm’s culture, ensure it remains high on firms’ agendas and that this tone is replicated throughout the firm.”
- FCA Business Plan 2016-17, 2016

“The core of our work, however, will continue to be challenging poor conduct...experience has demonstrated that poor culture and poor conduct are closely related”
- FCA Business Plan 2016-17, 2016

“What marks out a good board is its activism in embedding a strong risk culture throughout the institution. Behaviours, not structure.”
- Dr Laker, APRA Chairman, 2013

“The responsibility for setting organisational culture rightly rests with its leadership”
- FSI Final Report, 2014

“Where culture, incentive structures and systems are poor or misaligned, the conduct of gatekeepers we regulate can conflict with clients’ interests and can lead to unfair outcomes”
- ASIC Corporate Plan 2015-16 to 2018-19, 2016

“Board[s] must ensure that...a sound risk management culture is established and maintained throughout the institution”
- APRA CPS 220, 2016
An effective risk culture guides and facilitates desired behaviours

Risk culture assessments are uncharted territory for most boards and leadership teams: there are no established standards and, as yet, no generally accepted practices. At Grant Thornton, our approach is to reach below the surface of traditional reviews thereby shedding light on the culture and behaviours that underpin effective risk management frameworks. We include behavioural psychologists – and their methodologies – as an integral part of the team in a range of reviews, providing both qualitative and quantitative risk culture feedback.

**Risk culture: What is it?**
Whenever there is a major corporate scandal – fraud, unexpected losses, inappropriate selling practices, and safety failures – the finger is inevitably pointed at organisational culture. So it is not surprising that there is a strong desire throughout Australian businesses to measure and evaluate a company’s risk culture, so that action can be taken to reduce potentially major exposure to regulatory intervention and reputation risk.

We believe that organisational culture is the actual, consistent, repeated behaviour from people in an organisation. It is the result of a system of shared norms, values and beliefs that govern how people behave. Risk culture delves deeper into an organisation’s culture and refers to the way companies manage risk and how employees elect to respond to risk related decisions.

**Assessing Risk Culture**
When assessing risk culture, we consider the underlying factors including organisational goals and the end customer that impact risk and compliance. A risk culture review identifies the conditions, actions and practices in the company that may directly contribute to issues arising in the future. By providing predictive insights to the board and senior management, and by reinforcing desirable cultural traits and practices, risk culture reviews can make a significant contribution to corporate performance and integrity.

**Factors that impact risk culture**

**Regulatory environment**
In recent years, there has been an increase in regulatory pressure for effective management of risk culture which is now seen as crucial to the risk management process of a business. The Australian Prudential Regulation Authority (APRA) identifies company boards as responsible for risk culture. Accordingly, APRA now require businesses to ensure they have a sound risk management culture and that their Risk Management Strategy instils an appropriate risk culture across the institution. Evidently, the Australian Securities and Investments Commission (ASIC) also recognise that positive culture is central to consumer trust, confidence, market integrity and growth. They recommend organisations to adopt a range of planning and culture change systems and processes in order to strengthen risk.
Our approach
Grant Thornton’s culture methodology includes the use of globally validated organisational risk culture assessment tools that look at identifying and reviewing dominant attitudes, risk behaviours and any inconsistencies between leadership direction and intention and day-to-day realities. The model outlines four critical drivers of culture:

Involvement and engagement
Understanding skill gaps pinpoint areas of improvement or potential development is key to improving organisational capability. The work environment should aim to encourage and facilitate collaboration and allow employee empowerment. The employee lifecycle and incentives need to be aligned to the risk appetite of the company and the delivery of desired behaviours should then be reinforced. The assessment will include a review of incentives and rewards to determine if they are aligned to the desired risk culture.

Organisational adaptability
We identify any lessons to be learned and if root causes are being addressed. Are the desired and undesired behaviours in the organisation expected and measured? Ongoing learning and development will increase awareness of influences and responsiveness and help promote continuous improvement, change readiness and flexibility.

Diagnosing elements of culture
Grant Thornton uses a range of cultural diagnostic tools to build a risk profile validated with credible insight gained from other industry and organisations.

“With the increasing expectation of board accountability for risk culture, it is crucial for organisations in the 21st century to address their risk culture to retain their social licence to operate”

Madeleine Mattera
Partner - National Head of Financial Services
Elements of culture diagnosis

Interview top  Interview middle  Interview frontline  
Culture survey  Reward and recognition  
Analysis of history, documentation and data points  
Culture diagnostic  Change mgmt/ Recommended action  Follow up assessment

Measuring risk culture

Grant Thornton employs a range of techniques to examine existing business data and organisation cultural and behavioural indicators. We believe that it is possible to drive change in an organisation's risk culture through a process of robust planning and measurement.

At Grant Thornton, we use a highly validated, global tool which can be customised to include bespoke questions for your industry and specific business. We will assist you in identifying areas that need to be addressed in order to improve overall risk culture and align with business strategy.

Grant Thornton’s Risk Culture assessments provide an independent and objective examination and evaluation of existing culture in organisations. Central to our approach is developing a sound and holistic understanding of the cultural characteristics of your operations.

To measure and achieve the desired risk culture, Grant Thornton has designed and will take you through a three stage process:

**Diagnose**

In the diagnose phase, we identify the key cultures (existing, dominant and subcultures) that currently exist to pinpoint underlying principles and drivers of behaviour. We review existing mechanisms in place and any other areas of key relevant data points. We also work with you to determine your desired risk culture profile.

**Design**

Here our culture specialists work in collaboration with you to design strategies and initiatives to develop strengths and improve any weaknesses. We work towards shifting the risk culture to the desired risk culture profile and embed and strengthen mechanisms to deliver the desired outcomes.

**Drive**

This is the opportunity to implement change strategy and address any gaps that were identified. In this phase it is critical to maintain clear, concise, and consistent key messages to help drive the change. Ongoing assurance or "pulse checks" are required to ensure undesired behaviour are not reverted to.

Grant Thornton will work with you to evaluate, monitor and report the success and/or failures of the projects and programmes against agreed objectives.
Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. These firms help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice. Proactive teams, led by approachable partners in these firms, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions.

Grant Thornton Australia has more than 1,000 people working in Adelaide, Brisbane, Cairns, the Gold Coast, Melbourne, Perth and Sydney. We combine service breadth, depth of expertise and industry insight with an approachable ‘client first’ mindset and a broad commercial perspective.

More than 42,000 Grant Thornton people, across over 130 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work. Through this membership, we access global resources and methodologies that enable us to deliver consistently high quality outcomes for owners and key executives in our clients.

**Contacts**

If you would like to know more, please contact us.

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Our services to dynamic businesses

**Tax**
- Business planning tax advice
- Corporate tax risk management
- GST & indirect taxes including fuel tax credits
- Fringe benefits tax
- Employment taxes
- International tax
- Transfer pricing
- Expatriate taxes
- Research & development
- Corporate advisory services

**Audit & assurance**
- External audits
- Reviews of financial reports
- Technical IFRS & accounting advice
- IFRS training
- Expert accounting & audit opinions

**Private advisory**
- Business & strategic planning
- Compliance services
- Tax advisory
- Outsourced accounting solutions
- Private wealth advisory

**Financial advisory**
- Capital markets
- Corporate insolvency
- Corporate simplification
- Debt advisory
- Complex & international insolvency
- Due diligence
- Expert witness
- Family law
- Financial modelling
- Initial Public Offerings
- Investigations
- IT forensics
- Mergers & acquisitions
- Personal insolvency
- Raising finance
- Restructuring & turnaround
- Valuations
- Transaction advisory

**Growth advisory**
- Risk Advisory
- Internal audit
- Legislative and regulatory compliance
- Risk management
- Internal control and process risk
- Governance
- Data analysis
- Business & growth strategy
- Operational improvement & effectiveness
- Finance function transformation
- Supply chain improvement
- Implementation strategies for M&A
- Leadership, talent & culture
- Business strategy & planning
- Leadership
- Talent & capability
- Cultural transformation
- HR Direct
- Public sector advisory
- Policy strategy governance
- Organisational design & implementation
- Regulations

**Technology advisory**
- Technology strategy & optimisation
- Technology audit & reviews
- Technology project governance
- ITIL enablement
- IT security
- Project scoping & management
- Technology solutions
- ERP/CRM/eCommerce
- Corporate performance management
- Process automation
- Data analysis
- Mobile enterprise applications & document management