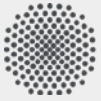


# Risk Culture Controls – The Identification, Categorization, and Influencing Factors of Controls for Developing a Corporate Risk Culture

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## Agenda

- 1 Introduction
- 2 Conceptual Framework
- 3 Research Design
- 4 Findings
- 5 Research Summary

## Despite of the growing attention to risk management, companies are failing to anticipate and manage their risks – Risk culture offers an approach to reduce those problems

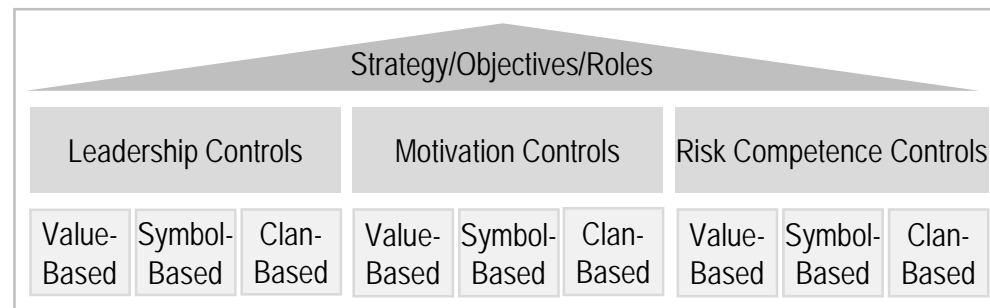
- Sophisticated risk management tools and methods do not necessarily protect companies from risks (Jeitziner et al., 2018; Pidun et al., 2017; Power, 2009; Themsen and Skærbæk, 2018)
- Risk management fulfils regulatory requirements, but is often not integrated into the organizations' day-to-day activities and risk considerations are not embedded in the mind-set of the employees (Arena et al. 2010; Hall et al. 2015; Jeitziner et al. 2018; Pidun et al. 2017; Power 2009; Tekathen/Dechow 2013; Viscelli et al. 2017)
  - Cultural failures and human misconduct also contribute to the problems and failures of risk management (Agarwal and Kallapur, 2018; Farrell and Hoon, 2009; Fritz-Morgenthal et al., 2016; Mikes, 2011; Mikes and Kaplan, 2013; Power et al., 2013)
- Culture as a mechanism for governing rational behavior' offers an approach to solving such control problems (Camerer and Vepsalainen, 1988)
- Culture is, at least to a certain degree, controllable (Deal and Kennedy, 1982; Peters and Waterman, 2015)
- Culture can fulfil several functions if it is controlled in an appropriate manner; therefore, risk culture should be controlled according to corporate objectives (Deal and Kennedy, 1982; Peters and Waterman, 2015; Smircich, 1983)

### Risk culture as soft factor that shapes employees' risk behaviour needs to be controlled according to corporate objectives

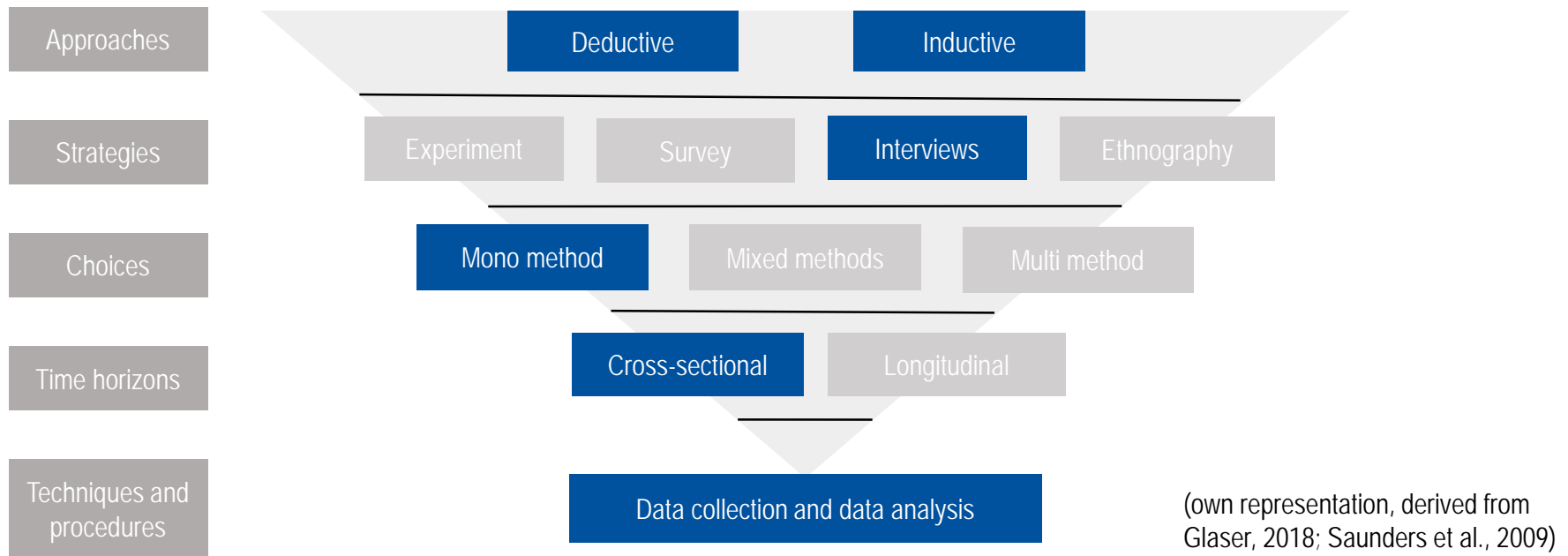
- Soft factors such as culture, are increasingly important as levers of control for dealing with risks  
(Agarwal and Kallapur 2018; Arena et al. 2010; Brooks 2010; Fraser and Simkins 2016; Grieser et al. 2017; Hall et al. 2015; Mikes 2011; Pedell 2014; Pidun et al. 2017; Roeschmann 2014; Taglioni et al. 2014)
- As a soft factor, risk culture can help to promote risk communication, risk awareness, risk perception and risk sensitivity among employees (Hall et al., 2015; Pedell, 2014; Mikes, 2011; Pidun et al. 2017)
- The prerequisite to benefit from this positive potential of risk culture is that a corporate risk culture is developed and controlled according to corporate objectives
  - Control risk culture in a way that employees are driven to make the right decisions and carry out activities that are consistent with the company's risk policy and corporate goals  
(Ahrens and Mollona, 2007; Ashby et al., 2012; Banks, 2012; Fritz-Morgenthal et al., 2016; Sandelin, 2008)
- Nascent stage of research, no best practice developed yet on a broad basis
- Research Question
  - How can risk culture be controlled using various instruments and practices and which influencing factors are relevant for these controls?

## Risk culture controls

- Controls as systems, rules, practices, values and other activities that management implements to direct their employees' behavior (Malmi and Brown, 2008)
- Respective categories for controls can be derived from the control purpose (Malmi and Brown, 2008; Merchant and Otley, 2006; Merchant and Van der Stede, 2017)
- Causes and need for control according to the three problems (1. lack of direction, 2. motivational problems and 3. personal limitations) (Merchant and Van der Stede, 2017)
  - Categorization of risk culture controls as leadership controls, motivation controls and risk competence controls on the basis of these problems as risk culture should help promote responsible risk management, reduce employee misconduct, foster more open communication about risks, and combat the three problems
- Definition of risk strategies, risk objectives and risk roles are superordinate to risk culture controls and ultimately determine the design and selection of such controls (Merchant and Van der Stede, 2017)
- Cultural controls can be divided into value-based, symbol-based and clan-based controls (Malmi and Brown, 2008)



## Focus on qualitative research due to nascent state of knowledge



- Collection of detailed knowledge about subject
- Development of interview guide
- Questions developed based on three literature strands and a conceptual reference framework  
(Viscelli et al., 2017; Kuckartz, 2014)

## Overview Interviews

Interviews conducted	32
Interviewees	37 (30/7)
Data collection	January 2018 - October 2018
Type of interviews	Personal (16) and telephone (16)
Average interview duration	58 minutes
Data collection	Recording (30) und transcription
Pages transcribed	About 700
Data analysis	Software MAXQDA

## Ownership structure

Institution	18
State	2
Family	7
Foundation	5

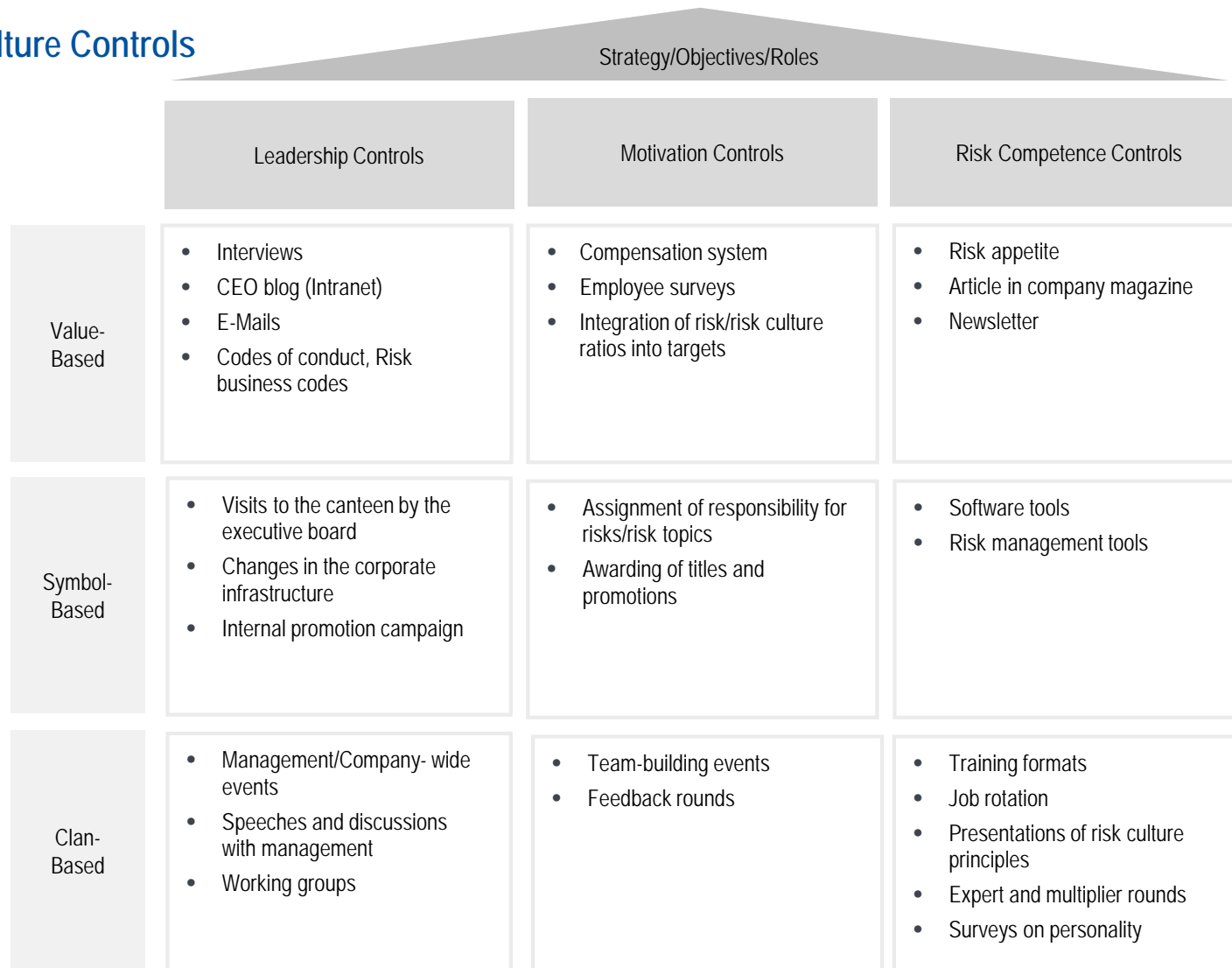
## Position/Function

CEO/CFO	6
Senior Director	9
Head of Risk Management	15
Senior Manager	2

## Industries

Motor vehicle, trailer, and semitrailer manufacturing	7
Chemical product manufacturing	1
Financial services	5
Insurance, reinsurance and pension funds	3
Telecommunications	1
Electrical equipment manufacturing	1
Beverage production	1
Mechanical engineering	2
Retail	1
Other vehicle construction	1
Legal and tax consultancy, auditing, management consultancy	5
Information technology services	2
Energy supply	1
Computer and electronic and optical equipment manufacturing	1

## Risk Culture Controls





## Speeches and discussions with management

Control type	Control	Purpose of control	How used
Leadership Controls	Speeches and discussions with management	<ul style="list-style-type: none"> <li>To exemplify and communicate the company's risk culture</li> <li>Sensitizing employees to the topic of risk culture</li> </ul>	<ul style="list-style-type: none"> <li>Coherent behavior</li> <li>Take time for conscious discussion with employees on the subject of risk culture, conduct personal discussions</li> <li>Regularly events</li> </ul>

*We had a management event with a CEO discussion about risks and risk strategy. Afterwards there was an opportunity to ask questions but anonymous via iPad. Usually when it is not anonymous there are only like two questions. This time it was about 120. The CEO could not answer all in time but promised to publish the answers afterwards in the intranet. We all thought 'Yes, of course'. But then after two weeks he did it. We were very impressed.*

*You can see right there the book 'The Penguin Principle' by Kotter. In front is a penguin. I had this penguin with me during the last Christmas speech and then recalled our values and risk culture. Then, I said where we stand in the culture change and the successes and the whole topics. Afterwards, we had a big wall where the staff could take pictures with the penguin. Hundreds of photos were taken, from people in small teams, to whole departments or individuals with the penguin, and this again led to an identification with the cultural change. Whenever I speak to my employees, I take this penguin with me. It might sound ridiculous, but it helps a lot.*

## Risk management tools/ Software tools

Control type	Control	Purpose of control	How used
Risk competence controls	Risk management tools/ Software tools	<ul style="list-style-type: none"> <li>• Documentation and control of risks and risk culture</li> <li>• Statement of risk cultures/risk managements importance</li> <li>• Coordination of risk management with various departments/business units</li> </ul>	<ul style="list-style-type: none"> <li>• Use of suitable software for documentation and consolidation</li> <li>• Design of risk models, risk assessment and analysis</li> <li>• Implementation of values in tools</li> </ul>

*CEO wants to abolish these long PowerPoint presentations. He wants up-to-date figures and to show employees that he trusts them.*

### Related results:

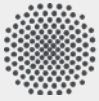
- Heterogeneous software landscape and risk instruments, often regulatory-driven
  - Use of analytical and data-driven risk management tools that can not easily create a common ground (Arena et al., 2010; Hall et al., 2015; Mikes, 2009, 2011; Power 2009; Tekathen and Dechow, 2013; Thomsen and Skærbæk, 2018)
  - Risk management tools should move away from pure quantification of risks
- Management needs to decide which package of controls they implement to secure the achievement of the organizations' objectives  
(Flamholtz et al., 1985; Malmi and Brown, 2008; Simons, 1995; Strauß and Zecher, 2013; Merchant and Otley, 2006)

## Major research findings summarized in 5 statements

1. Risk culture controls can be divided into three categories – leadership controls, motivation controls and risk competence controls. Each of these categories can be subdivided into value-based, symbol-based, and clan-based controls. For every one of the nine conceptualized categories concerning risk culture controls were identified.
2. Leadership controls were the controls most extensively addressed by the interviewees, followed by motivation controls and risk competence controls.
3. Tone from the top, but tone from the middle as well are considered highly relevant.
4. Risk tools and training formats are also very high on the list of priorities.
5. Companies show heterogeneous software landscape and risk instruments that are often based on ownership structure, size and industry.

## Focus on Implications, Limitations and Contribution to literature

- Implications
  - Firms can choose from a large set of risk culture controls from all categories that should be selected according to their own company context (e.g., ownership structure, industry, and size)
  - The selected controls must be supported by top and middle management
- Limitations
  - This interview-based study is limited to one point in time and to a German sample
  - Interdependencies between different risk culture controls were not investigated
- Contribution to literature
  - First study attempting to develop a framework with a systematization of different categories of risk culture controls and their internal and external influencing factors
  - Study provides further knowledge on the daily practice of risk management and on how risk culture can help achieve corporate goals by using specific tools or roles  
(Arena et al., 2010, Arena et al., 2017; Hall et al., 2015; Mikes, 2009, 2011; Power, 2009; Tekathen and Dechow, 2013)
  - Study responds to the call for more organizational studies of risk management that take cultural paradigms into account (Arena et al. 2010; Mikes, 2009, 2011; Power, 2009)



## Thank You!

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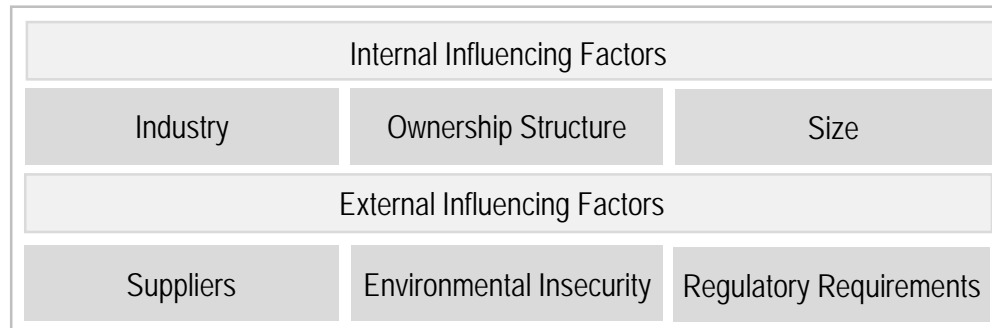
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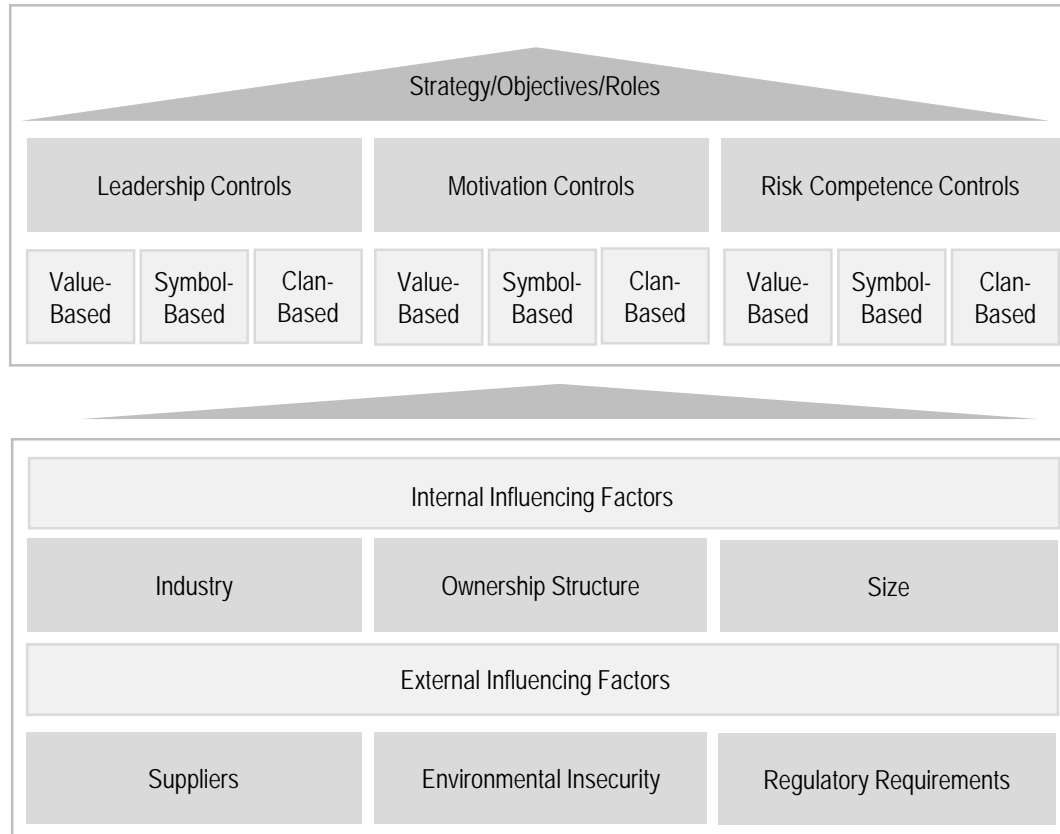
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## Influencing factors

- Identification on the basis of the risk management, risk culture, and corporate culture literature as well as contingency theory
- Studies from the field of risk management show that a company's industry affiliation and ownership structure influence risk management (Beasley et al., 2005; Colquitt et al., 1999; Hiebl et al., 2018; Hoyt and Liebenberg, 2003; Paape and Speklé, 2012; Pagach and Warr, 2011; Stein and Wiedemann, 2016)
- Distinction between internal influencing factors that are company-specific and at least partly determined by the company itself and external influencing factors that are environment-specific and therefore cannot be directly influenced by the company (Hummel, 2010; Schreyögg, 1980)

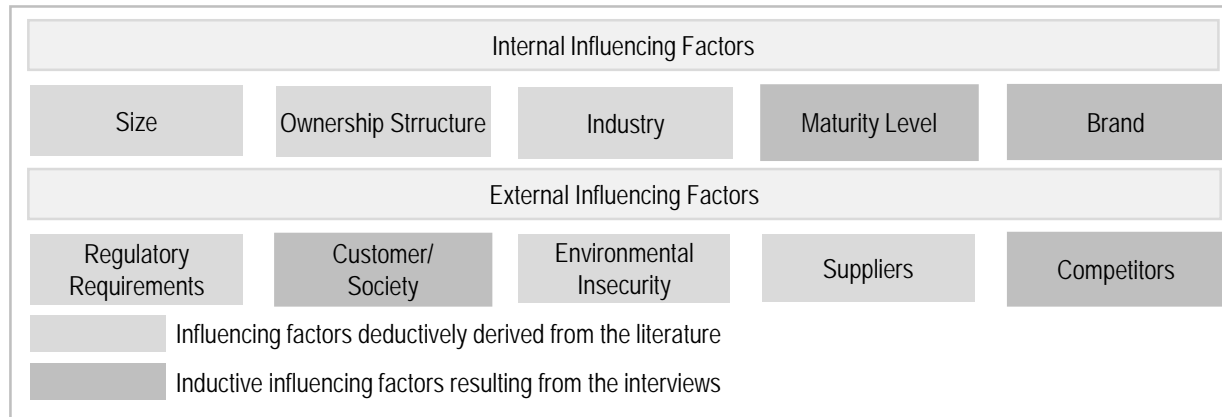


The framework represents a categorization of risk culture controls and identified influencing factors of risk culture controls





## Influencing factors of risk culture controls



- Size, regulatory requirements, ownership structure as most important influencing factors
- Identification of maturity level, brand, customer/society, and competitors as influencing factors
- Differences concerning ownership structure in family-businesses and foundations
  - Customer/society as influencing factor
  - Family values influence corporate values → commitment of employees
  - Risk aversion and independence of investors

*We are currently advising a medium-sized family-run company. The threshold values for reporting risks or the point at which a risk is considered significant are considerably lower than in other companies that are not family-run because the owner says, 'For me, even the amount xy is a risk, which is something I really want to know.'*

### Risk culture definition by Cooper et al. 2013 as basis

- Risk Culture is a pattern of basic assumptions
- that the group learned as it identified, evaluated and managed its internal and external risks
- that have worked well enough to be considered valid, and
- therefore to be taught to new members as the correct way
- to perceive, think, and feel in relation to those risks.

### Definition risk culture

- Deducted from risk culture, risk management and corporate culture definitions that were collected and analysed and afterwards discussed in the interviews
  - Risk Culture is a pattern of basic assumptions
  - that the *organisational members* learn and *experience* as they *identify, analyse, evaluate, and treat the organisations internal and external risks,*
  - under communication and *leading of the management*
  - and that current and new organizational members *assimilate* as an approach and motivation for perception, thinking, feeling and dealing with
  - *current and future risks.*