

Risk Management Made Simple **Advisory**

Welcome to the FREE Online Newsletter about **Systematic Risk Management**
for **executives** and **management professionals**
from **Risk Wise Inc.** and **Diana Del Bel Belluz**

September 2012

FEATURE ARTICLE: Creating a Healthy ERM Culture – Part 1

By Diana Del Bel Belluz, M.A.Sc., P.Eng.

Do you know how to create a risk management culture? Many enterprise risk management (ERM) leaders operate under **the misconception that a healthy risk culture will develop spontaneously** as a result of implementing structured approaches to ERM.

Seasoned leaders will tell you that **nothing could be further from the truth** when it comes to cultivating the kind of collective risk-taking and risk management behavior by the humans that form your organization.

For example, **Ed Clark**, CEO of **Toronto-Dominion Bank**, in a recent interview with the Globe and Mail newspaper said this about what he has learned in over 25 years in the C-Suite: **"If you let osmosis make [decisions], it won't happen."**

The truth is you won't get a healthy risk culture by osmosis either. You have to **take the lead and deliberately cultivate** in your people the character traits and habits that support the behaviours you want.

I have defined twelve specific cultural traits for effective ERM. The twelve cultural traits (shown in green font in Figure 1) support specific phases of the **ERM Implementation and Organizational Learning cycle.**

In this series of articles I **provide strategies to cultivate the twelve traits in your people.**

Healthy Risk Culture Trait #1: Accountable

The first thought that springs to mind for most people when they hear the word *accountability* is identifying **who** is responsible for achieving an objective.

In his book **More Perfect by Design**, **Angelo Baratta** explains that true accountability is about the *ability* to *account* for our performance. That **requires us to shift our mental focus from who** is responsible **to how and why** a management decision, strategy or practice will contribute to the successful achievement of objectives.

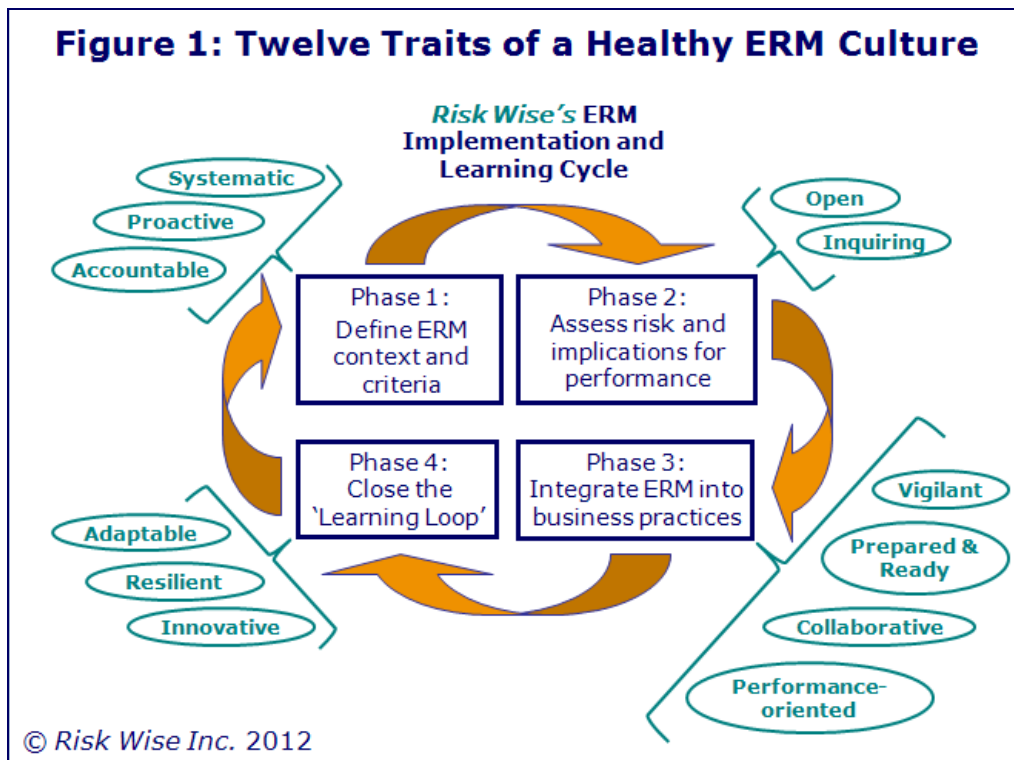
To be accountable in the ERM context, we need to understand how our decisions and actions contribute to **striking the appropriate balance between 'value creation' and 'value protection'**. Rather than having a box-ticking mindset, **true accountability requires people to consciously understand the why and then embrace their roles** and responsibilities for **both risk-taking** (to create corporate value) **and risk management** (to protect corporate value).

Not surprisingly, **avoidance of accountability is one of the most common dysfunctions of a team.** (For more on this, see this month's **Bonus Resource.**)

How to cultivate it:

If you want people to be accountable for their behaviours around risk, you need to do two things. **First, you need to define the goal posts for appropriate behaviour.** This means articulating what, for your organization, constitutes healthy versus inappropriate behaviour for both risk-taking and risk management. **Most organizations do this by clearly articulating their appetite and tolerance for risk.** (For how-to tips, see the **March 2008**, **March/April 2011**, and **December 2011** Advisory issues.)

Continued on page 2...



Second, you need to **consistently encourage and reward appropriate risk-taking** and risk-response action **and consistently discourage and penalize inappropriate risk-taking** (overly aggressive or excessively risk averse) and risk-response action (over- or under-managing risks). A variety of incentives and disincentives can be used including: monetary, recognition/censure, and factoring risk behaviour into career progression/demotion decisions.

Rewarding appropriate behaviour is a powerful motivator and feels good to both the leader and the manager who is being acknowledged for their stellar behaviour. **Discouraging inappropriate behaviour is harder for most of us because we naturally avoid conflict.** However this is dangerous, because **what we permit we promote.**

Letting inappropriate behaviour continue unchallenged will quickly undermine a healthy risk culture. The book reviewed in this month's **Bonus Resource** has great **tips on how to overcome the fear of conflict.**

Healthy Risk Culture Trait #2: Proactive

To be proactive you need to **adopt a forward-looking mindset.** Rather than getting mired in yesterday's problems, look towards the future to anticipate risks and address them and/or get ready for them *before* they become a reality or a crisis.

The desired behaviour is captured in the simple discipline of asking:

- Where do I want/need to be at the end of this period (year, quarter, month, week, today)?
- How will I get there?
- What could help or hinder me along the way?

How to cultivate it:

The leadership role of is key. **If the CEO actively seeks out risk intelligence** and considers it a crucial input into his or her decisions, **it sets an important example and precedent for every other leader in the organization.** Board **directors can also help by insisting that risk considerations be included** in all items that that come to the board for decision.

I'll address the remaining 10 culture traits in future Advisory articles.

The Risk Wise bottom line... A healthy risk culture doesn't happen spontaneously. You have to **take the lead.** This means **defining and deliberately cultivating** in your people **the character traits and habits that support effective ERM behaviours** in your organization.

*

My forte is coaching executives on how to integrate ERM into their organization's unique business practices and culture. **If you need help engendering a healthy risk management culture in your organization, contact Diana Del Bel Belluz at Risk Wise:** Diana.Belluz @ riskwise.ca or by telephone at (416) 214.7598

Pass it on!

Please share this Advisory with people in your network.

About Us



Diana Del Bel Belluz
President
Risk Wise Inc.

Diana Del Bel Belluz, M.A.Sc., P.Eng., is a risk management advisor who **helps executives in complex organizations to implement systematic and sustainable risk management practices**. Since 1990, Diana has been doing **leading-edge risk work** for a wide range of organizations in the corporate, government and nonprofit sectors.

In addition, Diana **advances the field of risk management** by **teaching** university courses and management training seminars, **speaking** at conferences and **authoring** publications on a wide range of risk management topics.

To learn more about Risk Wise, contact Diana Del Bel Belluz directly at: Diana.Belluz@riskwise.ca



1 Yonge Street
Suite 1801
Toronto, Ontario
Canada M5E 1W7
T 416.214.7598
www.riskwise.ca