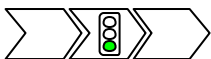


Creating a Risk Management Culture

Tips for Risk Improvement Managers
on bringing about cultural change in Departments





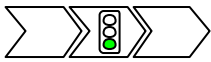
TIPS FOR CREATING A RISK MANAGEMENT CULTURE

Executive Summary

Bringing about fully effective risk management in government will require significant cultural change, to embed risk management in the behaviour and activity of all staff. This guide offers tips for Risk Improvement Managers to help them:

- a. establish top management commitment and a clear direction for change;
- b. create awareness of the need for change;
- c. change behaviour (embedding risk management in people's jobs);
- d. take the opportunities for culture change;
- e. support and nurture the new culture (light-touch central support for embedded risk management);
- f. measure how effectively change is being delivered and sustained; and
- g. engage others in bringing about change.

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Introduction

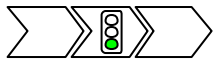
1. This guide aims to support Risk Improvement Managers (RIMs) in bringing about cultural change in their Departments. It recognises that the best way to do this will depend on each Department's individual circumstances. But it also seeks to guide RIMs by bringing together approaches that have worked elsewhere, both within and outside government.

Aims

2. Creating a culture where effective risk management is an integral, and natural part of the way most people work – embedding risk management - is a long-term aim for government. Such a culture is already being encouraged and developed in Departments, with support from the Risk Programme. Progress is being made with embedding, but full realisation of the aim will require sustained long-term effort.

3. The change required is analogous to that made by the Financial Management Initiative in the 1980s (embedding budget management throughout organisations), or the introduction of Job Plans and clear job objectives. The new ways of working that were introduced have now become an integral part of the way of working in government.

4. Departments report that it is possible to establish leadership, direction, policies and risk processes relatively quickly, but that embedding risk management into core business processes (such as business planning or performance management) can take 18 months, and full culture change is expected to take several years (estimates of 5 to 7 years are common (and some suggest 10 years). This ties in with the experience of others e.g. IBM in similar culture changes. The key issue for the Risk Programme, is “how do we make as much progress as possible with culture change, as quickly as possible, and sustain the momentum?”



Tips for Risk Improvement Managers

a. Getting top management commitment...

5. There is a clear, widespread view that visible **commitment to risk management from the very top** is “a critical condition precedent to its adoption” (see e.g. report of comments from James Colica, Senior Vice President at *GE Capital*, and others in the series of international Risk Management Reports from Felix Kloman at www.riskreports.com).

- *BP* report the critical nature of an active lead from Lord Browne, who personally led a drive to focus very clearly on achieving objectives, and with this managing the risks. He continues to take a personal role in shaping how risk is managed in BP.
- *Customs and Excise* – successive Heads of Department have said that “we aim to be the best risk management organisation in the public sector, comparable with the best in the private sector”. This gives a clear cultural signal to all staff.
- The [Home Office \(with senior managers\)](#) and [DTI \(with policy makers\)](#), amongst others, have organised risk-based events chaired by their Permanent Secretaries to demonstrate visible commitment.

6. Take opportunities presented by **changes of personnel** at top level to get their commitment to the risk agenda. Be ready to present them with evidence of success:

- Explain how risk management helps i) deliver results, ii) succeed with innovation, iii) improve resource allocation, and iv) reduce failure/crises.
- Explain how good risk management is a requirement for them to be able to sign a satisfactory Statement on Internal Control. Good risk management is a requirement for Accounting Officers.

... training your leaders to lead the culture change.

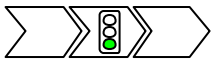
7. *CMPS* are running a series of [workshops for the SCS](#) on Risk Management. These have included a session on culture change (see material from John Adams at paras 20-23 below, and presentations from [Sir David Omand](#) and [Aberdeen University](#)).

... helping your leaders to lead

8. **Setting a clear direction for change:** use the [Risk Management Assessment Framework](#) to identify areas for improvement, and where progress needs to be made to embed risk management in core processes.

9. **Help the Board and Ministers to have effective discussions on risk¹.** E.g. by developing an effective risk register; ensuring that discussion of risk is integrated into

¹ Forthcoming guidance from the Risk Support team on board level risk management is being developed in parallel with the Review of Corporate Governance, due to report at the end of 2004.



Board agenda items e.g. *FCO* have had a rolling programme of discussion of key risks; and that the Board ensure that risks are not just identified, but well-managed. Many Departments report that non-executives are a key ally here, especially if they also chair the Audit Committee.

10. **Getting the message across:** for example by drafting communications for them to all staff or groups. Key messages might include: “Aim is for high quality of understanding of risks and rewards, underpinning our decisions and actions”, “need your help in this”, “open/honest sharing of perceptions both up and down the management chain, between business units, and with service delivery partners. “ An example is [DWP's risk management policy](#), signed by their Finance Director and made available to all staff – this stresses the necessary cultural change, and sets out principles for staff to follow.

11. Communications might be linked e.g. with key points in the planning cycle e.g. the Spending Review – when new plans will emerge and where risks will need to be managed to ensure successful delivery.

b. Building awareness...

12. Kathryn Dindo, Chief Risk Officer for FirstEnergy Corporation, focuses on “developing a risk awareness culture” through educating all employees. Her techniques are:

- (1) completion of a questionnaire asking employees to list the five most important risks affecting both a business unit's and the FirstEnergy's broader goals, with a 1 to 10 rating of the effectiveness of current responses,
- (2) completion of a “risk exposure map” ranking likelihood and severity, using four qualitative estimates, and
- (3) a “risk action plan” that lists responsive strategies for each risk and its “owner.”²

The *Cabinet Office* are planning a similar questionnaire.

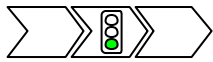
... communicating

13. Use intranets (e.g. *Defra* – have risk management site; *DTI* similar, and also integrated in better policy making site), house journals etc to keep getting over the messages.

... using role models

14. *Defra* have used [BP](#) to talk to large staff meetings about their approach. *Home Office* have used Sir Tom McKillop of *AstraZeneca* to talk about risk leadership and culture change (see para 5).

² Extract from Felix Kloman *Risk Management Reports* (Dec 03) <http://www.riskreports.com>



c. Changing behaviour...

... helping people to see risk management as important

15. **What's in it for me?** People need to see the pay-off. Competency frameworks are increasingly reflecting the importance of risk management (e.g. [SCS leadership framework](#)). Also end of year Performance Appraisal Review processes can be used to ask: Did we spot the risks? Did we deal with them? What about the ones we missed?

16. **Making the link to performance management** is crucial – increasingly, at all levels, people are traffic-lighting performance against targets, and highlighting the risk factors which lie behind that rating. This is the basis for effective risk management directly linked to delivering results. *DfT, Home Office* and others have Board level committees to lead this. *MoD* and others have linked risk to their [balanced scorecard](#). A further step is to get risk management embedded in individual performance appraisal (“have risks been effectively managed”, “were there risks that weren’t spotted”, “overall, has this helped achieve objectives”).

17. **Embed risk in core processes** (planning, performance management, policy making, project management). Understanding and managing risk is an important part of these processes – this is increasingly recognised in central and departmental guidance - but people can be too busy to do it properly. Processes such as Gateway reviews or other independent reviews can help to get people to take this seriously.

... achieving a healthy attitude to “well managed risk-taking” ...

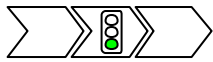
18. Creating the right attitude to taking risks and innovating - people can be too inclined to take a positive view (“optimism bias” – common at the start of projects or other changes) or a negative view (“risk aversion” – often the case with busy people, focused on delivering on immediate tasks, and unwilling to take on new ideas).

- There is useful material in HMT’s [Green Book: guide to investment appraisal](#) on countering optimism bias, including building in an allowance in costings. A complementary approach is described in OGC’s [Risk and Value Management](#) in their Achieving Excellence in Construction series.
- [Julian Rizzello from CMPS](#) has summarised research on how groups of people can take riskier or less responsible courses of action than individuals facing a similar situation (he discusses the phenomena of “risky shift”, “bystander unresponsiveness” and “groupthink”) and identifies how individuals can be empowered to make good risk judgements.

19. Leaders can help overcome risk aversion by being clear about where they have high and low [risk appetite](#)³.

- OGC: identify a different level of risk appetite in different areas of risk they face (policy/guidance risk; people and internal systems risk; propriety, regularity, finance and accountability risk; reputation risk; external risk)

³ Treasury’s Orange Book “Management of Risk: A strategic overview” is currently being updated to include extended guidance on risk appetite.



- *Virgin*. Innovation: Tend only to take on risky ventures. But manage this by ensuring partners take big share of risk. (Needs complex contracts to ensure this). Also often start small, i.e. big risk but limited exposure.
- “Enterprise is about... taking risks. Accepting that when you take risks you can make mistakes, but that these can provide rich learning opportunities.”
Niall Fitzgerald, *Unilever*

... recognising and working with different perspectives on risk

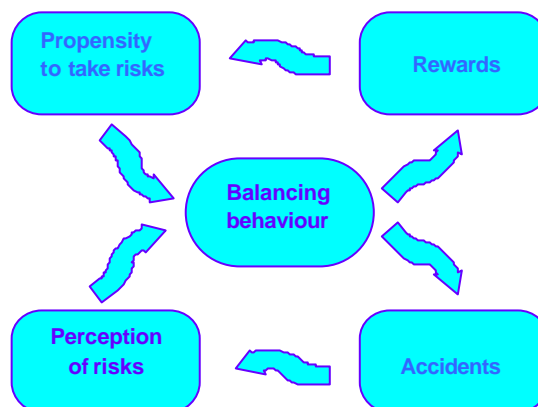
20. Individual psychology, and organizational roles, will influence how people **perceive risks**. Professor John Adams’ work in this area, drawing on key works in cultural theory, may help us to understand how unhelpful stand-offs can result.⁴

21. This may for example help us to understand why Ministers often see civil servants as risk averse (a stereotype – but the perception was prevalent at ministerial risk breakfast meetings). The civil service desire to present a balanced, “objective” view of risk and rewards may contrast with a perspective where “progress” and change are given higher priority. Resolving the potential tensions may depend on recognizing the different perspectives, and seeking to create a ‘safe space’ where these can be expressed and differences resolved.

... making the “risk thermostat” work well, and avoiding “bottom-loop bias”

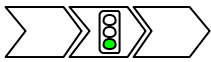
22. John Adams has developed a model of how people respond to risks. This is represented in the attached diagram (the “**risk thermostat**”), and postulates that:

- everyone has a propensity to take risks
- this propensity varies from one individual to another
- this propensity is influenced by the potential rewards of risk-taking
- perceptions of risk are influenced by experience of “accident” losses – one’s own and others’
- individual risk-taking decisions represent a balancing act in which perceptions of risk are weighed against propensity to take risk
- accident losses are, by definition, a consequence of taking risks; the more risks an individual takes, the greater, on average, will be both the rewards and losses he or she incurs.



23. One of the cultural features of large organizations observed by Adams is that they can get into “**bottom loop bias**”. That is, the feedback from mistakes and crises can override the pursuit of rewards. In government, the media and parliamentary scrutiny can often contribute to this. So it is important to build awareness of this and pursue a balanced approach. The pursuit of PSA outcomes

⁴ *Risk*. John Adams. UCL Press 1995. ISBN 1-85728-068-7



may provide a source of balance. Which underlines the importance of integrating risk management with performance management.

... encouraging risk-based decision making

24. Get people **focused on outcomes** – it will help them think about what actions they can take to address the risks to achieving those outcomes. Risk based planning and resource deployment is now becoming more widely used (e.g. by fire services – who are now required to have risk based plans, police, Customs, Inland Revenue, many fraud activities). Examples include:

- *Merseyside fire service* – who used part of their budget to pay for assessments of fire risks in poor quality housing in deprived areas (high risk – smoking, chip pans, poor wiring etc), also installing smoke detectors free. Much more cost effective than increasing provision of fire engines/staff.
- *Customs and Inland Revenue* targeting of high-risk categories are also examples. (e.g. see PAC report on [Customs' Tobacco Smuggling Strategy](#))

25. This thinking is a good way to generate high value-for-money approaches, and emphasises how good risk management can help deliver better results.

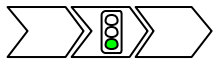
d. Taking the opportunities for culture change...

26. Take opportunities to embed good risk management practice whenever there is major **organisational change** (restructuring, Machinery of Government changes). The culture will be fluid at this time and open to influence.

- *DWP* (then *DSS*) – “Focus on Delivery” reorganization introduced programme management of changes, from policy making through implementation (projects, legislation) to delivery. Managing the risks was a key element of this.
- *DH* are currently seeking to make more use of [arms-length bodies](#) for delivery, and are developing a risk-based approach to managing these bodies.

...piggybacking on central initiatives

27. For example, the efficiency review (good risk management can generate efficiencies e.g. see para 24) and Civil Service Reform (risk management should be a core-competence for a modernised/reformed civil service). Freedom of Information changes will increasingly present opportunities to encourage openness and engagement with the public – if handled well, the new requirements offer big potential gains in risk-management.



... using crises/failures

28. These provide real opportunities to improve ways of working. There can be a clear willingness to change the way things are done to avoid a repeat (the culture is “unfrozen”). And often, poor risk management can be seen as part of the reason for failure. Examples of good learning and development of this type include *Defra* post-FMD and BSE and *DfES* post-Individual Learning Accounts.



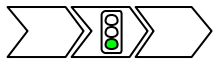
e. Supporting and nurturing the new culture ...

29. Get the right balance. Avoid creating a central function where risk management is seen as a specialist activity done by a few. But, do ensure you have a resource to support people who need to move up the learning curve.

- *Marks and Spencer* – recent focus on this. Biggest impact in changing culture is from large laminated 3x3 matrices (impact x likelihood) used interactively with business teams, facilitated by central risk team. They stick up risks with post-it notes; argue about positions. Leaves them with agreed, visible, profile of their risks. This helps to ensure that risk is in their thoughts regularly.
- *NM Rothschilds* – report need for professional risk analysts to facilitate sessions. “People find risk uncomfortable” they may want to ignore/avoid confronting it – a professional approach can help encourage them to confront the discomfort.”
- *Barclays Capital* – don’t build a heavy central team – facilitate; “don’t do it for them”, and “have them sign it off”

30. Encourage, and create options for, **training and development**. [CMPS](#) can advise you:

- They suggest considering a variety of training and development opportunities not just classroom-based events, for example coaching, mentoring and e-learning. Scenario-based events can also be very successful, e.g the *Home Office* ran an [SCS event at the Thames Barrier](#) with real-time simulation of a potential major threat to London – this developed and challenged participants’ approaches to risk management and risk communication
- *Civil Service College* courses may be able to underline the importance of embedded risk management – Course Directors have been encouraged to embed risk into their courses on policy making, project management etc.



f. Measuring how well change is being delivered and sustained...

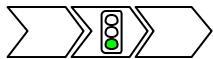
31. The [Risk Management Assessment Framework](#) (RMAF) – can give an overall picture of progress and identify gaps to address. Some Departments are including in their RMAF assessments more specific measures of culture change, e.g. *Defra's* staff survey sets out two statements: “I am confident that if I make a decision that proves to be wrong I will not be blamed for it” and “I am encouraged to identify and address risks in my job”. In both areas there have been significant improvements between 2003 and 2004.

g. Getting help from others in your organisation...

32. Many RIMs have created sub-networks of RIMs or similar risk managers in agencies, NDPBs and other divisions to help spread the word (e.g. *HO, DfT, Defra, MoD, DH, DWP*).

- Also use the networks that exist around core processes – policy makers, business planners, Project and Programme Management (Centres of Excellence), delivery planning, etc;
- Explore whether HR can help with a concerted effort at culture change;
- Make use of central departments, including the Risk Support Team.

Risk Support Team
HM Treasury



Annex: Links used in this guide

Paragraph 5

Home Office leadership event - <http://www.hm-treasury.gsi.gov.uk/gfm/RST/Leadership.htm>

DTI policy event - http://www.hm-treasury.gsi.gov.uk/gfm/RST/Policy_tool.htm

Paragraph 7

CMPS Delivery skills workshops - <http://www.cmps.gov.uk/deliveryskills/index.asp>

Presentation by Sir David Omand on risk and culture change - http://www.hm-treasury.gsi.gov.uk/gfm/RST/Uploaded%20documents/Events/280404_SDO_CMPS.pps

Presentation by Dr Kathryn Mearns, Aberdeen University on the psychology of risk - http://www.hm-treasury.gsi.gov.uk/GFM/RST/Uploaded%20documents/Strands/Leadershipculturechange/drkathryn_mearns.pps

Paragraph 8

Risk Management Assessment Framework - http://www.hm-treasury.gov.uk/media//7B1D9/risk_management_assessment_070104.pdf

Paragraph 10

Department of Work and Pensions' Risk Management Policy - http://www.hm-treasury.gsi.gov.uk/GFM/RST/Uploaded%20documents/Strands/dwp_riskmgt_policy.doc

Paragraph 14

BP presentation - <http://www.hm-treasury.gsi.gov.uk/GFM/RST/Uploaded%20documents/Events/bpslides.pps>

Paragraph 15

SCS competence framework - <http://www.cabinet-office.gov.uk/civilservice/scs/documents/pdf/comps-themes.pdf>

Paragraph 16

MOD balanced scorecard - http://www.hm-treasury.gsi.gov.uk/gfm/RST/Uploaded%20documents/Strands/Embedding%20in%20core%20processes/MOD_bal_scorecard_feb03.pps

Paragraph 18

Green Book; Appraisal and Evaluation in Central Government - http://www.hm-treasury.gov.uk/Economic_Data_and_Tools/greenbook/data_greenbook_index.cfm

OGC guide, *Risk and Value Management* - <http://www.ogc.gov.uk/sdtoolkit/reference/achieving/ae4.pdf>

Julian Rizzello, CMPS, note on group think - http://www.hm-treasury.gsi.gov.uk/GFM/RST/Uploaded%20documents/Strands/Leadershipculturechange/risk_mgtculture.doc

Paragraph 19

A brief guide to risk appetite - http://www.hm-treasury.gsi.gov.uk/GFM/RST/Uploaded%20documents/Strands/Leadershipculturechange/risk_appetite.doc

Paragraph 24

Public Accounts Committee report on HM Customs Excise's tobacco smuggling strategy - <http://www.publications.parliament.uk/pa/cm200203/cmselect/cmpublic/143/143.pdf>

Paragraph 26

Department of Health review of Arm's length bodies - http://www.dh.gov.uk/PublicationsAndStatistics/Publications/PolicyAndGuidance/PublicationsPolicyAndGuidanceArticle/fs/en?CONTENT_ID=4086081&chk=y4UlfP

Paragraph 30

CMPS website - <http://www.cmps.gov.uk>

Report from Home Office event on risk communication – http://www.hm-treasury.gsi.gov.uk/GFM/RST/Uploaded%20documents/Events/HO_Docklands_summary.doc

Paragraph 31

Risk Management assessment Framework - http://www.hm-treasury.gov.uk/media//7B1D9/risk_management_assessment_070104.pdf