



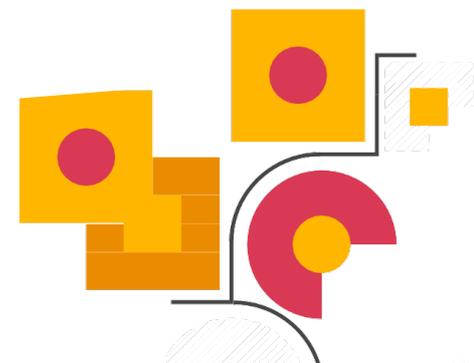
Common design principles and challenges with measuring risk culture

Overview

Many organisations, across a variety of sectors and industries, are realising the benefits of investing in risk culture and how effective a strong risk culture can be as a key strategic enabler. This has led to numerous organisations performing risk culture assessments to understand their current risk culture and behaviour, and now many are considering how they objectively measure, monitor and report risk culture on an ongoing basis. However measuring risk culture is proving to be a more challenging task for organisations, and there are a range of views to risk culture metrics and approaches across the market – including the use of the word metrics itself. Some feel they are indicative rather than precise or complete.

What is clear is the benefits of monitoring risk culture and periodically engaging with key stakeholders the learnings and on their role (e.g. Executive and Board). This provides insights into the effectiveness and alignment of strategies supporting a strong risk culture, the extent to which risk mindsets and behaviours are shifting over time, and identifies areas where course correction may be needed. A set of risk culture metrics or indicators also act to help identify and anticipate emerging threats to a strong risk culture.

To help organisations navigate this challenge, we have identified some common design principles to think about when developing risk culture metrics or indicators as well as some common challenges we are seeing across the market.



5 design principles for risk culture metrics or indicators:

- 1 Simplicity is key**
Select a small number of metrics for each risk culture dimension/attribute (i.e 2-3 metrics).
- 2 Be clear on what you are measuring progress against**
The metrics should be aligned with the desired target state and behaviours.
- 3 Have a combination of alternative data points**
Include a combination of both quantitative (e.g. number of conduct breaches, completion of mandatory training, etc.) and qualitative (e.g. perception based data from employee survey) metrics from across the organisation (e.g. people and culture, internal audit, risk, etc.).
- 4 Inclusion of both leading and lagging metrics**
While leading indicators can be more challenging to generate, their predictive nature can provide advanced warning signs of potential risk events.
- 5 Determine the appropriate frequency**
Some metrics (e.g employee perceptions by survey) may only be available on a six month or annual basis, so ensure this is factored in when selecting metrics.

Key takeaways

Developing risk culture metrics or indicators is not an easy task. Some are hard to gather regularly and they are likely to be dynamic and change over time. What is required though, is considered thought behind whether the metrics are fit for purpose, aligned to the organisation's target risk culture, and are able to give meaningful early warning signs over a period of time. The metrics should focus on inputs, actual behaviours and behavioural outcomes. Using data visualisation (e.g. Power BI) can be helpful to provide insightful dashboarding, analysis and user-friendly risk culture reporting.

Common challenges we see with risk culture measurement:

- Providing trend analysis**
 We often see metrics used as a point in time assessment where the metric is a snapshot at the month or quarter end. While this can be helpful, it doesn't provide the trend of a measure overtime which could indicate potential risk issues or predict future events.
- Defining threshold or trigger levels**
 Metrics are sometimes provided without a defined threshold or trigger level, however this restricts their purpose as a key risk indicator. Having a defined threshold or trigger level provides organisations with an early warning sign that a potential or real risk may occur.
- Relevance and quality of each metric**
 Metrics are often given equal weighting when determining the overall status of the risk culture attribute, regardless of their relevance or the quality of the underlying data. Instead, these two factors should be considered into a weighted scorecard to provide a greater representative view of the risk culture.
- Informing (and subsequently addressing) the root causes of behaviours and perceptions**
 Some metrics used on their own may only offer one-sided views and may only get at the symptoms of behaviour rather than the underlying drivers. Leveraging multi-source data may be useful for identifying underlying root causes.



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