How to assess the level of maturity of Risk Management in your company

By Horst Simon

All companies are practicing some level of risk management, either on a formal basis, with policies, processes and systems; or on an informal basis, without any risk management structure. Those who are not good at risk management or doing nothing about risk management will be exploited by those who are good at it, so it is time to do some “stock-taking” of your risk management capabilities.

To start this process an organisation first needs to get an accurate picture of the current level of risk culture maturity in the organisation. Various attempts have been made to do this and generally most revert to some kind of questionnaire or checklist approach linked to a scoring sheet that is eventually tabulated to quantify an overall score which is linked to a perceived level of maturity. Although most inputs in any kind of maturity assessment are subjective, there is value in using a combination of approaches, but generally the outcome, due to human nature and perception, is always mid-point or average. These processes generally fail to identify specific weaknesses or action plans.

There is no standard definition for the different levels of maturity, but an interesting aspect is that most practitioners working on this use the concept of 5 different levels of maturity, this in itself also contributes to most consolidated assessment results ending up at mid-point. The five levels of Risk Culture maturity have been defined as follows:

1. In a bad risk culture, people will NOT do the right things regardless of risk policies and controls
2. In a typical risk culture, people will do the right things when risk policies and controls are in place
3. In a good risk culture, people will do the right things even when risk policies and controls are not in place
4. In an effective risk culture every person will do something about the risks associated with his/her job on a daily basis
5. In the ultimate risk culture every person is a risk manager and will evaluate, control and optimise risks to build sustainable competitive advantage for the organisation
Risk Culture Building is the process of growth and continuous improvement in the way each and every person in an organisation will respond to a given situation of risk as to mitigate, control and optimize that risk to the benefit of the organisation. No two people will respond the same way to a situation of risk, the way any person responds to risk is influenced by a number of factors, the main ones are:

- Nationality & culture
- Childhood experiences (and formative environment)
- Work ethics, trust & honesty
- Education (and the way it was obtained)
- Work experience
- Religion and other spiritual thinking
- Attitude towards life (and death)

Once an organisation has established the level of maturity, the Board of Directors and Executive Management can commence the process of Risk Culture Building. It is not possible to implement risk culture in any organisation; it is a process of building, starting at the top. There are no best practices that can be implemented, the risk culture must be built upon the underlying corporate culture, so each risk culture building process is organisational specific and unique. Risk Culture Building is thus a process of change to instill new behaviours in the workforce, both the behaviours the leadership want to encourage and the behaviors they want to avoid.

Addressing the aspect of people risk is the only way an organisation can improve the results of how their people respond to a situation of risk and the effectiveness of their risk management function. No organisation can ever have a perfect risk management culture, but organisations can achieve a level of maturity where they have an effective risk culture process and every employee is risk-minded and does something on a daily basis to mitigate, control and optimize risk.

The development of Risk Culture Building is focused on awareness and training in business ethics and human behaviour, as mentioned, both the behaviours we want to encourage and the behaviours we want to avoid. Organisations should frequently evaluate the progress (or regress) they are making on the path to maturity and implement action plans.

*Horst Simon is the Director of Risk Management at Horwath MAK. He is based at our DIFC office and delivers Risk Management Consultancy and Training services to all industry sectors. He is also a regular speaker at International Conferences on Risk Culture and other Risk Management topics.*