

# MANAGEMENT CHALLENGES IN THE CONTEXT OF RISK CULTURE

**Iwona Gorzeń-Mitka**

Czestochowa University of Technology, Czestochowa, Poland

E-mail: iwona.mitka@zim.pcz.pl

In recent years (especially in the context of the financial sector) we can find many debates (public and academic) which emphasise the need to change mindsets in management (Gorzeń-Mitka, 2012). This discussion is a result of the dynamically changing external and internal conditions of the functioning of organizations. At the same time, we observe great progress over the past decade in developing effective tools and techniques for managing (also risk and complexity) within organizations. But management is carried out by people. Their awareness of threats and opportunities determines the effectiveness of the whole management process within the organization. One of the themes of this discussion is to indicate the need for changes in the area of organizational culture by creating the so-called risk culture.

How Xenikou and Simosi (2006) indicate organizational culture directly influences the business performance of a company. In today's business activity, a company needs to establish a conscious risk culture as part of its corporate culture in order to stay competitive. But what is risk culture? There are many definitions of "risk culture" (most of them we can find in practice literature - IRM 2012, IIF 2009), but they have some common elements, namely a focus on the habits and routines which are relevant to risk taking and its mitigation. Culture is most often associated with operational risk and governance (Acharyya & Johnson, 2006). But it seems that companies can only effectively implement real cultural change if they are aware of their current risk culture and how well it is aligned to their risk profile and objectives. Risk culture is not static and should be actively challenged to encourage continuous improvement (Gorzeń-Mitka, 2013).

Also, national and international regulators are placing greater emphasis on companies' ability to demonstrate that they have an effective risk management culture. Markets and rating agencies increasingly appreciate that the state of a company's risk culture impacts its value (Davidson et al. 2012). For example, according to Standard & Poor's (2007), in a positive risk management culture, risk and risk management are important considerations in the everyday aspects of corporate decision-making. To evaluate the strength of an insurer's risk management culture, we look at organisational and governance structures for the management of risks, and at communication of risk and risk management.

In spite of the fact that risk culture is such an important issue, we are still missing empirical support for this area. In one of the first attempts to describe this extensive and important concept in a single model, in 2012 the Institute of Risk Management published the first large practical document. This included a formative model which defines risk culture, describes ways to measure it and states areas that are important for a good risk culture. One unique academic study is "Risk Governance, Structures, Culture and Behaviour: A View from the Inside" by Elizabeth Sheedy and Barbara Griffin (2015) from Macquarie University. Their study explores risk governance structures, culture and behaviour using employee survey data (22,145 employees in 222 business units from six major commercial banks headquartered in

Australia and Canada). The study highlights the limitations of risk governance, as measured by publically available indicators, for producing consistently desirable risk behaviour.

It should be added that risk culture is a cross-disciplinary issue made up by a number of disciplines, e.g. from sociology, psychology, through to management theory. And still, however, many questions remain in this area. For example: how to effectively measure risk culture?, how to adapt the model to the specific nature and size of an organization? And certainly, the question of risk culture requires changes in modern management and continuous research.

However, it isn't disputed that the change in risk awareness within the organization is still a difficult task. It seems that the development of management without a risk culture view is not possible. Include the risk culture and its effects (opportunities and threats) make it possible to find the opportunity in modern management.

I hope that the discussion above will encourage you to take the risk of getting acquainted with the latest studies on the issues of management of modern organizations and that you will find "added value" in them for yourselves.

## References

- Acharyya, M., Johnson, J. (2006). Investigating the development of enterprise risk management in the insurance industry: An empirical study of four major European insurers. *The Geneva Papers on Risk and Insurance*. Retrieved from <http://www.actuaries.org.uk/sites/default/files/documents/pdf/acharyya.pdf>.
- Ashby, S., Palermo, T., Power, M. (2012). *Risk culture in financial organisations: An interim report*. London School of Economics and Political Science, LSE Library.
- Davidson, O., Mackenzie, P., Wilkinson, M., Asselin-Miller, R. (2012). The need to build a strong risk culture is growing. Retrieved from <https://www.towerswatson.com/en-SG/Insights/Newsletters/Global/emphasis/2012/The-Need-to-Build-a-Strong-Risk-Culture-Is-Growing>.
- Gorzeń-Mitka, I. (2012). Risk management in Polish companies. In *Proceedings of the 7th International Scientific Conference "Business and Management"*. Vilnius, pp. 10-11.
- Gorzeń-Mitka, I. (2013). Doskonalenie jako paradygmat zarządzania współczesnym przedsiębiorstwem. In: I. Gorzeń-Mitka (Ed.), *Problemy doskonalenia zarządzania przedsiębiorstwem*. Wydawnictwo Wydziału Zarządzania Politechniki Częstochowskiej, Częstochowa, 11-21.
- IIF (2009). *Risk culture*. Washington DC: Institute of International Finance.
- IRM (2012). *Risk culture: Resources for practitioners*. London: Institute of Risk Management, UK.
- Sheedy, E. A., Griffin, B. (2015). Risk governance, structures, culture and behaviour: A view from the inside (July 21, 2015). *FIRN Research Paper*; No. 2529803.
- Standard & Poor's (2007). *Summary of Standard & Poor's enterprise risk management evaluation process for insurers* (November). Retrieved from <https://www.standardandpoors.com>.
- Xenikou, A., Simosi, M. (2006). Organizational culture and transformational leadership as predictors of business performance. *Journal of Managerial Psychology*, 21 (6), 566-579.

Received: November 25, 2015

Accepted: December 15, 2015

**Iwona Gorzeń-Mitka**

PhD., Assistant Professor, Faculty of Management, Czestochowa University of Technology, Al. Armii Krajowej 19B, 42-201 Czestochowa, Poland.

Email: [iwona.mitka@zim.pcz.pl](mailto:iwona.mitka@zim.pcz.pl)

Website: <http://www.zim.pcz.pl/profile/295,iwona-gorzen-mitka>